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# China

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## Document To Revitalize Literature, Art Viewed

91CM0479A Hong Kong CHING PAO [THE MIRROR] in Chinese No 6, 10 June 91 p 5

[CHING PAO Commentary: "The Revitalization of Literature and Art Requires a Climate of 'Blooming' and 'Contending'"]

[Text] The CPC Central Committee's Propaganda Department, the Ministry of Culture, and the Ministry of Radio, Film, and Television recently issued a joint document entitled "Suggestions on Revitalizing Current Literary and Artistic Creation." Because it contains ten suggestions, it is called the "Ten Suggestions on Literature and Art." The "Ten Suggestions on Literature and Art" emphasizes that the revitalization of literature and art will require adhering to the guiding ideology of Marxism-Leninism and Mao Zedong Thought in order to resist the tide of bourgeois liberalization and all wrong ideas and theories.

Since the "Ten Suggestions on Literature and Art" was published, people in Beijing literary and art circles have been making quite a few veiled criticisms of it. The general consensus is that the "Ten Suggestions on Literature and Art" is based on the subjective assessment made by those in charge of literature and art since 4 June 1989 that the world of literature and art is a "severe disaster area of liberalization." The document is seen as a concrete manifestation of corrections that are being made to the "tough" material civilization policy but "lenient" spiritual civilization policy, a retraction of the authorities' promise of "freedom to create and criticize," and a clear indication of a policy "crackdown" on literature and art.

We think that the basic intent of the "Ten Suggestions on Literature and Art" is certainly to crack down on the literary and art policies declared by the fourth and fifth national congresses on literature and art in 1979 and 1984 respectively, when the authorities began to set to right things that had been thrown into disorder. At the Fourth National Congress on Literature and Art, which was held in an environment of ideological liberalization, reform, and opening up to the outside world, the authorities, in addition to reaffirming the "double hundred" policy of "letting a hundred flowers bloom and a hundred schools of thought contend," clearly called for the first time "freedom to create and freedom to criticize." At the Fourth Congress of the Chinese Writers' Association, certain senior CPC officials even proposed a policy of "creative freedom by allowing writers to take sole responsibility for their views," which left writers excitedly shouting "long life" to such a policy. Although the Fifth National Congress on Literature and Art had been held under anti-spiritual pollution and anti-liberalization circumstances, in addition to reaffirming the "double hundred" and "two freedoms" policies, the authorities had reworded their policy that "literature and art must serve and be subordinate to politics" to a "dual service" policy which holds that "literature and art must serve both the people and socialism." Moreover, they explicitly expressed a policy of "two lesses," namely "less intervention and less involvement" in literature and art by party committees, and "two allowances," that is, "allowing

criticism and allowing counter-criticism," which were policies that literary and art circles found encouraging. Except for restating the "double hundred" and "dual service" policies however, the current "Ten Suggestions on Literature and Art" no longer clearly reaffirms or basically does not even mention the "two freedoms," the "two lesses," or the "two allowances" policies. What is this if not a crackdown? This forces us to ask: has literature and art policy changed again?

What has led to the crackdown on policy on literature and art? As stated above, it resulted from the assessment by departments in charge of literature and art that literary and art circles were a "severe disaster area of liberalization." However, such an assessment is not in accordance with reality. An article by Chu Cheng [2612 1767] in the May 1991 issue of CHING PAO reported that at a forum on literature and art held at Zhongnanhai during the 1991 Lantern Festival, attended by CPC General Secretary Jiang Zemin, Xia Yan [1115 5888], a veteran in literary and art circles, pointed out sincerely that despite successive campaigns aimed at intellectuals and literary and art circles, writers and artists still endorse the policy of reform and opening up to the outside world that has been in effect since the Third Plenum of the 11th CPC Central Committee, and have produced many good works. Calling such a loyal troop of writers and artists a "severe disaster area of liberalization" is fundamentally wrong, unacceptable to writers and artists, and inconsistent with the CPC Central Committee's interpretation of the concept of "liberalization." Chen Yun, chairman of the CPC Central Advisory Commission, recently stated clearly that all those who have not opposed the party's policies and principles since the Third Plenum of the 11th CPC Central Committee are advocates of reform and opening up to the outside world (see article in this issue by Chung Hsiao [6945 2556]). This makes it even more wrong to brand the literary and art world a "severe disaster area of liberalization," and large numbers of writers and artists "liberalization elements."

The "Ten Suggestions on Literature and Art" holds that literature and art can be revitalized only by opposing liberalization. This argument is hardly convincing. The general opposition to liberalization in literary and art circles since 4 June 1989 and the punishment of large numbers of older, middle-aged, and young writers who had made great contributions to the revitalization of literature and art in mainland China over the past decade, have left many accomplished writers with a lingering fear, a fear and a lack of desire to produce, and more tension and constraints than at any time in the last decade or so. As a result, there are few new works and a temporary shortage of writers. This shows that literature and art cannot be revitalized by opposing liberalization. With the crackdown on liberalization in literary and art circles growing worse and worse, and those in charge of literature and art still complaining about policies not being "tough" enough and demanding correction of overly "lenient" policies, doesn't it look as if the crackdown will not ease up until literature and art is put back under the same kind of extreme leftist control that it was during the most despotic period of control over literature and art?

The following things are essential to the revitalization of literature and art: 1. Literary and art policy must have continuity instead of constant change. In particular, the literary and art policies set forth in the "Ten Suggestions on Literature and Art" should not be a regression from those set by the fourth and fifth national congresses on literature and art; 2. Although literature and art often involve politics, they cannot be equated with politics because they have their own laws that must be respected. Ying Ruocheng has said that "writers cannot be ordered to write in a certain way, because art cannot be produced on order." Wang Meng has said that "a great play cannot be produced under the direction of a political baton." And Zhao Danyi [6392 0030 6695] has said that "there is no hope for literature and art if they are controlled in too much detail."

In a recently published article titled "On Letting a Hundred Flowers Bloom and a Hundred Schools of Thought

Contend," the famous Chinese writer Bing Xin said: While we may imagine "letting a hundred flowers bloom" as such a bright and beautiful picture, and "letting a hundred schools of thought contend" as such a delightful scene, "letting a hundred flowers bloom" requires a "climate" of bright sunshine and gentle breezes as well as broad and fertile "geographic advantages," and "letting a hundred schools of thought contend" also requires a free and stimulating forum in which strong arguments can be made on just grounds ("grounds" that are advantageous to the nation and the people) and thoughts are allowed free expression. Thus, the leaders who advocate the "double hundred" policy must create an atmosphere and climate that facilitate "blooming" and "contending." Bing Xin has vividly expressed the philosophy and logic for the revitalization of literature and art. The authorities in charge of PRC literature and art would truly do well to think deeply about this over and over again!!

## NATIONAL AFFAIRS, POLICY

### Experts Evaluate Inflation in 1991

HK1106142191 Beijing JINGJI YANJIU in Chinese  
No 3, 20 Mar 91, pp 3-10

[Article by the Chinese Academy of Social Sciences' economic analysis study group: "Will Inflation Reappear in 1991?"; the group includes Zhang Zhuoyuan (1728 0587 0337)—group chief, Liu Guogang (0491 0948 0342), research personnel from various economic organs, authors Bian Yongzhuang (6708 0516 5445) and Dai Yuanchen (2071 3293 2525), and editor Lin Li (2651 0342)]

[Text] At present, three outstanding problems exist in China's economy. First, to date the potential currency inflation pressure has not been truly eliminated. Second, partial sales difficulties in the market have continued for 18 months without any obvious change, and production has lacked an effective pushing force. Third, economic effects have generally declined, failing to form a benign cycle. How should we understand these three problems, which are reciprocally related, and, in particular, how will they change in 1991? What countermeasures should be adopted? These are the hot points that concern people. Our views are as follows:

#### I. Basic Judgment of 1990's Macroeconomic Situation

A. Economic improvement and rectification has achieved obvious results. This is principally manifested by the following three aspects: 1. The central government realized the goal of bringing the currency inflation rate below 10 percent ahead of schedule. The 1990 plan originally called for lowering the currency inflation rate to between 14 and 16 percent. This was later revised to 7 percent, but actually the 1990 retail price index was 2.1 percent. This was beyond people's anticipation. People could not imagine that the currency inflation rate could drop so fast. This was an outstanding accomplishment of economic improvement and rectification. 2. In 1990, the central government and State Council handled agriculture fully; thanks to good weather and Heaven's blessing, agriculture achieved a bountiful harvest. The gross output of grain totalled 870 billion jin and the gross value of agricultural output increased by 6.9 percent over the preceding year, exceeding the 4 percent designated in the plan. 3. The international balance of payments situation improved, as did conditions for imports and exports and repayments of foreign loans. The favorable balance of trade exceeded \$9 billion, the rates of loan repayment and loan services did not exceed the danger line, and the import-export product structure also improved.

However, there were certain problems with 1990's economic development: 1. Heavily stockpiled goods: the value of goods stockpiled in industrial enterprises above the county level increased by 45.1 billion yuan over the beginning of the year. 2. Economic effects declined, the size of the deficit increased by 100 percent, comparative production costs of products rose by 5.6 percent, the turnover of funds slowed by 22 days, and remittances of profits and taxes dropped by 18 percent. 3. Financial

difficulties were aggravated and the financial deficit was estimated to have exceeded 10 billion yuan.

B. "The soft market" was a popular topic of discussion in 1990. Seen from the surface phenomenon, a certain "weakness" definitely did exist in market sales. Although starting from October sales volumes of by far the great majority of consumer goods showed a rising tendency throughout the country, the gross volume of retail sales of social commodities for the year amounted to only 822.5 billion yuan, an increase of 1.9 percent over 1989. If the factors causing the rise in commodity prices were deducted, then there was actually a slight fall in sales. Rural markets in particular showed an obvious weakness, and from January to October the cumulative gross volume of retail sales of social commodities dropped by 4.3 percent compared with 1989. Meanwhile, the gross value of social commodities in inventory amounted to 365.8 billion yuan, an increase of 11.2 percent over 1989. In the investment products market, there was a rather large increase in stockpiles of means of production. Although after entering the fourth quarter the sales volume of the means of production in the whole materials system showed a rather large increase over 1989, it could only compare equally with the corresponding period in 1988. Under the conditions of a 5-percent growth in GNP, 7.6-percent growth in industry, and 6.9-percent growth in agriculture, a mere 1.9-percent growth in the total volume of retail sales of social commodities (at existing prices) reflected to a definite degree insufficient consumer demand. At the end of October, the Ministry of Commerce compiled supply and demand conditions for 647 kinds of principal commodities. The compilation showed that supplies of 95 kinds of commodities—or 15 percent—lagged behind demand; this was a drop of 5 percent compared with the first half of the year. Supply and demand was basically balanced for 369 kinds of commodities, or 60 percent, while the supply of 163 kinds of commodities, or 25 percent, exceeded demand. The latter showed a rise of 4 percent over the first half of the year.

C. People have different explanations for the causes of market "weakness." In our opinion, according to the data on the supply and demand conditions for 647 major commodities, not all commodities suffered from weak or stagnant sales, and only a portion had supplies that exceeded demand. The causes were: 1. Too many durable consumer goods were introduced on the production lines, many were of the same level or grade, and production capacity greatly exceeded actual demand. Besides, the various localities wished to maintain enterprises' production, and naturally the products piled up in inventory and sales stagnated. 2. Based on their own self-interests, localities blindly developed a large number of medium and small enterprises whose product mixes were basically the same. For example, there were many cotton yarn factories, but there were very few coarse yarns below 16-count and few highly fine yarns of 100 count and above; production capacity concentrated on ordinary yarns with a count of between 20 and 40. This caused the inefficient use of limited cotton resources, as well as insufficient supplies of textile products required by domestic and foreign markets;

at the same time large quantities of textile goods of the same grade stockpiled and suffered from stagnant sales. Many other commodities were in the same situation. 3. As for the old "four big pieces" and the new "four big pieces," middle-income households in cities and towns were already basically saturated with them, and so far new consumption hot points have not been promoted, while low-income households in urban and rural areas are unable to buy them. Hence, judging the current market by the purchasing fever that appeared during the panic-buying spree in 1988 would not be at all appropriate. At present, urban residents' purchases have already shifted to normal consumer purchases. The stagnant sales of some commodities that appeared in the 1990 market reflected a production structure and demand structure that were not suited to each other, and they belonged to the category of total volume sluggishness and weakness caused by structural fatigue and weakness. By the end of 1990, the structural fatigue and weakness and total volume of sluggishness and weakness had eased somewhat, although it still existed. There is yet another observation on the market situation. This is the belief that 1990 was still a year of overly brisk demand. This observation or conclusion resulted from treating savings as "surplus purchasing power" and from storing up money for future purchases. As a result, regardless of how sluggish or weak the market is, very large purchasing power is still hidden. We do not subscribe to this view. This is because under normal conditions, savings will grow in a sustained manner and savings cannot be listed as demand. Precisely because the extraordinary growth of savings has strengthened the degree of retrenchment, the currency inflation rate can, simultaneous with many price adjustment measures being introduced, fall more than people expect. Precisely because domestic demand is weak, or not brisk enough, imports can fall sharply and exports can rapidly increase. In addition to the above-mentioned structural causes, stockpiling of finished goods and large-scale increases in commercial and materials storage can appear. Failure of products to obtain social "realization" is the direct cause of lowering enterprise benefits and the inability of fiscal revenues to meet expenditures. At a depressed stage in a country's or territory's economy, a general fall in economic benefits is normal. Under China's existing structure, where the character of expenditures on salaries, wages, and various welfare benefits is rather stiff, it is not all all surprising for products' comparative production costs to rise and for fiscal deficits to expand.

D. In 1990, banks issued new loans totalling 273.1 billion yuan, an increase of more than 20 percent over 1989. Such a stupendous increase in the growth of the money supply added to people's worries about the hidden potential of currency inflation, while the failure of repeated increases in loans to have any corresponding effect on economic operations likewise led to people's doubts about the efficacy of the regulation and control measures. Hence, further analysing the direction of flow of these loans will help in judging the result of the loan increases. First, loans used to adjust the international balance of payments and increase the foreign-exchange surplus do not build up

pressure for currency inflation. Second, the increased volume of loans for circulating funds to support the production, circulation, and purchase of agricultural products equalled 76 percent of the total increased volume of loans, a portion of which was turned into enterprises' deposits. At the end of the third quarter of 1990, enterprise deposits totalled 379 billion yuan, a net increase of more than 70 billion yuan over the end of 1989, or about 22.9 percent. According to estimates by relevant departments, 45 percent of loans contracted by enterprises assumed the form of "loans converted into deposits." As for how much of the total volume of loans is turned into individual income, no correct figures are available. However, seen from the increase span of residents' income (the growth of urban residents' income for living expenses was 6.6 percent, whereas the increase in peasants' per capita income was only around 1 percent), loan increases have not yet caused inflation in individual income. Growth in loans to enterprises strengthens production capacity but does not directly influence consumption demand; on the contrary, it reduced the demand for circulating fund loans in 1991.

Analyzing product stockpiles and the product mix will also help in gaining a hold on the potential pressure of currency inflation. If products whose value has not been realized in the market still have a definite value and can still form an effective supply, this will help solve the threat of currency inflation in 1991. Even though a portion of the low-quality products cannot realize their values, their influence on economic benefits will be larger than on currency inflation. Whether stockpiled and warehoused products can form an effective supply will be determined to a certain degree by the effective demand in 1991. In spite of the fact that in past economic forecast patterns the multiplier and flexibility coefficient of loans for circulating funds on the retail price index were relatively large, the follow is true: 1. In 1990, the increase in loans had a special nature, and a considerable portion of the loans were tied up in the circulation sector. 2. The time effect of the influence of the multiplier of loans for circulating funds is shorter than that of the influence of the multiplier of loans for fixed-asset investments. Hence, although there is the possibility that they may affect the 1991 commodity price index, the more important point is whether they can influence effective consumption demand.

## II. The Macroeconomic Situation, Economic Plan, and Anticipated Economic Policy Effects in 1991

E. In 1991, the main targets of the macroeconomic plan and policy are: 1. Compared with 1990, a growth of 4.5 percent in GNP, 3.5 percent in agriculture, and 6 percent in industry. 2. An increase of about 6 percent in the general retail sales index. 3. Controlling the fiscal deficit at under 10 billion yuan. 4. Increasing economic effects, reducing stockpiled goods, and restoring normality in warehousing various products. Other targets affecting the macroeconomic changes and supporting the above-mentioned planned targets include: 1. Fixed-asset investments of 500 billion yuan. 2. New loans totalling 210 billion yuan, with 145 billion yuan for circulating fund loans, 10 billion yuan

for circulating fund loans, and 50 billion yuan for fixed-asset investment loans [figures as published]. 3. Social commodity purchasing power of 905 billion yuan, an increase of 9.6 percent over 1990. 4. A favorable balance in foreign trade of \$9.3 billion, equivalent to over 46 billion yuan.

The 1991 macroeconomic targets may be summarized as maintaining the economy's sustained stability, and realizing the effective growth of the macroeconomy. So-called effective growth may be interpreted as an increase in the end products which can be realized.

F. Whether or not currency inflation will reappear is determined by the balanced state of the consumer goods market. Consumer demand is determined by changes in actual income and psychological expectations. In 1990, the increase in residents' income was limited and did not directly constitute a factor for consumption inflation. The forecasted increase in income for staff members, workers, and peasants in 1991 is around 8.5 percent of this. The factor of increase in salaries and wages for staff members and workers will be smaller than in 1990, with the growth rate between 12 and 15 percent. The increase in peasants' income from the sale of agricultural products will be lower than the growth in output value; this, plus other income, will give a gross increase rate of 5 to 8 percent. The increase in the peasants' income will be determined largely by the 1991 agricultural harvest, the development of the township enterprises, and the income peasants can obtain from investment growth. The more important factors affecting consumption demand are residents' psychological anticipations, which include an anticipation of increased income and currency inflation: 1. Anticipation of increased income is an important factor changing savings trends. That is to say, the consumption and savings of the great majority of people are not only affected by their current income situation, but also by their future income situation. The factors causing the anticipated fall in the residents' actual income growth are: First, since 1989, the growth rate of the residents' actual income has been on the downturn. Second, certain people have been skeptical about future development and reform. What is worth noting is that the appearance of anticipation about a fall in income in recent years is built on the foundation of a previous, overly high anticipation of income growth which will expand the role of income anticipation on shrinking consumption and increasing savings. 2. Anticipation about currency inflation. This was the important cause of the spree of panic buying in 1988. The rapid fall in the currency inflation rate in 1990 helped suppress anticipation about currency inflation.

Another important factor affecting residents' consumption levels is a change in the savings trend itself. Following an increase of 133.4 billion yuan in urban and rural residents' savings deposits in 1989, which was a growth of 35 percent, at the end of 1990 savings deposits had increased by 188.7 billion yuan. Newly increased savings in fixed deposits accounted for 89.2 percent of this, showing a rise in the stable character of savings. An important cause of the change in people's savings comes from changes in the social welfare system. According to a survey of 1,000

households by the Beijing Industrial and Commercial Bank, the major motivations for saving for 74.5 percent of residents were for purchasing residences, education for their children, health insurance, and providing for pensions. In the current social climate, the need to have money for everything is an important cause for residents to increase their savings.

The above-mentioned factors have restricted the growth in consumption demand. According to a forecast by relevant departments in the Ministry of Commerce, residents' consumption demand will grow at a faster speed in 1991—around 10 percent—than in 1990. Of this, consumption of basic living needs will keep pace with the rise in commodity prices, the growth in demand for durable consumer goods will increase by around 15 percent over 1990, and noncommercial demand will increase by around 20 percent. The consumption demand of social groups will be loosened and the growth rate will be around 15 percent.

In the consumer goods market, urban residents' consumption may return to normalcy in 1991. The fact that in the fourth quarter of 1990 urban residents' consumption outlays increased by 9.4 percent over 1989 provided a signal of this development. However, the development of the rural consumer goods market will be much slower, and it is likely that insufficient demand of a level and grade character will continue playing its role in the first half of 1991. With regard to income anticipation, since reform, large-scale growth in peasants' incomes has relied principally on the state continuously raising the purchase prices of agricultural and sideline products and on the development of the township enterprises. In 1991, due to changes in the large macroeconomic climate, peasants' incomes from these two sources will not be able to grow on as large a scale as they had in the preceding 10 years.

With regard to supplies of consumer goods: 1. Agriculture's bountiful harvest in 1990 laid a good foundation for the supply of nonstaple foodstuffs in 1991. Residents spent around 50 to 55 percent of their living expenses budgets on food, and around 60 percent on purchasing commodities, of which the outlay for nonstaple foodstuffs is around 37 percent [figure's at published]. From 1988 to 1989, when the currency inflation rate was rather high, the rise in prices of nonstaple foodstuffs not only far exceeded the rise in the commodity retail price index, but it was also far ahead in time duration. In 1987, when the retail price index rose by only 7.3 percent, the nonstaple foodstuffs price index rose by 13.8 percent, with the prices for meat, fowl, and eggs rising by 16.5 percent. In 1988, the retail price index rose by 18.5 percent, but the nonstaple foodstuffs price index rose by 23 percent, with the prices for meat, fowl, and eggs rising by 36.8 percent. Thus, previously currency inflation was always closely related to the effective supply of agricultural and sideline products. The bountiful grain harvest in 1990 will naturally increase the effective supply of nonstaple foodstuffs and check the rise in food prices. Since the end of 1990, the stability, and indeed the relative drop in prices of nonstaple foodstuffs in country fair trade, has borne out this point. 2. Stable growth in the effective capacity to supply other consumer goods. China's textile production capacity exceeds the

volume of demand by 42 percent. There has been an increase in the stock of ordinary daily necessities. Looking at the total volume, the supply of bulky durable goods exceeds demand: the supply of color television sets, washing machines, and bicycles exceeds demand, and the supply of refrigerators slightly exceeds demand.

The above analysis shows that if there is no substantial change in residents' anticipation about currency inflation, in 1991 there is no likelihood of an appearance of the inflationary trend where demand for consumer goods exceeds supply.

G. The currency inflation rate is indirectly determined by the equilibrium in the materials market. This is determined by the following factors: 1. Fixed-asset investments' demand for materials. 2. Industrial production's demand for materials. 3. The demand for investment products on the part of the rural economy, and in particular by peasants' housing construction.

First, let us study whether the planned fixed-asset investment of 500 billion yuan would break the equilibrium of the materials market. According to a forecast by the Ministry of Materials, based on relevant data from 1989, each increase of 100 million yuan in capital construction investment will increase the consumption volume by 7,600 tons of steel materials, 5,000 cubic meters of timber, and 33,200 tons of cement. Looking at the hidden potential for resource growth in 1991, and particularly at the production increase and use of goods in storage, the increased demand growing from increased investments can basically be met. The demand for investing in technical transformation for building materials is not at all large. It is principally geared towards electrical machinery products, and presently there are basically no short-line goods in electrical machinery products. The needs for investment growth can be satisfied. Second, in 1991, whether industrial production's demand for materials—particularly raw materials—shows an obvious increase will be determined by the rate of growth in the processing industry, whereas the latter is restricted by the demand in the consumer goods market. In the past two years the growth trend of energy, raw materials, communications, and transportation has been relatively good, and their production capacity can sustain a rate of industrial growth at around 8 to 9 percent. Third, there will not be too large an increase in the rural economy's demand for investment products, and the growth in peasants' net income is limited. This will make it difficult for productive investments to recover and rise. On the other hand, peasants' housing construction, on the basis of the large-scale fall in 1990, may drop further. This will possibly reduce the demand for building materials.

To further explain the effects of investment on gross demand, it is necessary to analyse how the 500 billion yuan in fixed-asset investment was determined, and what effects there would be on balancing total volumes if the investment plan is not met or is exceeded.

Fixing the total volume of fixed-asset investments by the relevant departments was based on calculations from demand. Fixed-asset investments of 500 billion yuan are

required based on the following: industrial growth of 6 percent; agricultural growth of 3.5 percent; tertiary industry growth of 5 percent; zero growth in foreign-trade exports; targets for total volume of social retail sales of commodities that will not increase warehousing and stockpiling; and national economic operations that are relatively normal. The State Statistical Bureau asked to increase fixed-asset investments to 530 billion yuan, based on calculations that industrial growth at 7 percent. The investment scale of 500 billion yuan exceeded 1990's growth by over 14 percent, however, after deducting the factor of commodity price raises, the volume of investment goods in kind is still lower than in 1988, and will not lead to a large rise in the prices of investment goods.

The 500-billion-yuan investment plan faces the possibility of either not being met or being exceeded. China now exercises dual control over the investment scale and investment funds in the case of fixed-asset investment. Frequently certain units have the scale but not the funds, while other units have the funds but not the scale, resulting in the investment plan not being met. The 1991 budget provides appropriations of 37.2 billion yuan, or 7.3 percent of the total investment scale. With the addition of bank loans worth 61.0 billion yuan, the scale and the related funds which the central authorities can control account for roughly 20 percent of the whole society's fixed-asset investments. A portion of the investments from the system of ownership by the whole people still does not have the necessary funds. The demand for investments from urban and rural collectives and individuals calls for a total of 175.5 billion yuan, an increase of 14.7 percent over the preceding year; it is estimated that realizing the funds will be rather difficult. This is because investments from urban and rural collectives and individuals are determined not only by the source of funds but also by the anticipated rate of profit on investment, whereas this anticipation is in turn determined by the anticipated growth in consumption demand. At the same time, bank loans to them are determined by the anticipation of loan repayments, and this anticipation is similarly determined by the demand stature of the consumer goods market. If insufficient demand still prevails in the consumer goods market, then there will not be any indication that this portion of investment can be smoothly realized.

Under the 1991 arrangements, the ratio of enterprises' self-raised funds is still rather large. Due to market sluggishness and weakness, stockpiled products, operational difficulties, and low economic effects, the prospects for sources of enterprises' self-raised funds are not at all optimistic. Similarly, if there is a lack of prospects for increasing the consumer goods market, state enterprises' wishes for investment will not be brisk. As for peasants' individual investment, since their income will not increase greatly, despite the production increase, the size of the investment increase will have to depend principally on the speed of the recovery and rise of township enterprises. The latter will have to depend on demand growth in the consumer goods market. Hence, if administrative intervention by local governments is not considered, and there is reliance only on market functions, then the state of

consumption demand will largely determine the investment level of urban and rural collectives and individuals. Herein lies the possibility that the 500-billion-yuan fixed-asset investment plan will not be met.

The factor that may cause a possible breakthrough in the investment plan depends on the acts by various local governments. Recently there has been a rather loud cry from local governments about increasing investments and loans. The sources of the expansion of investment funds by local governments are two-fold: First, breaking the banks' target on fixed-asset investment loans, edging out circulating fund loans, and changing into investment loans. Second, using bank guarantees and selling local enterprises bonds at high interest rates. After lowering bank deposit interest rates in the middle of 1990, residents' method of savings shifted to buying bank bonds, treasury notes, and enterprise bonds. So long as there is no change in residents' anticipation of stable commodity prices, the intention to buy long-term, high-interest bonds will climb. According to forecasts by relevant departments, if the total volume of investment exceeds 530 billion yuan, then the balance in the materials market will be broken and this will push commodity prices up.

H. Widening fiscal deficits have become important problems in China's national economy in 1991, but they are not the first and foremost contradictions in current economic life. There are only two methods of compensating for fiscal deficits: increasing the national debt, and bank overdrafts. The former does not directly increase banknote issues, but will reduce the source of loan funds. The latter will increase money supply. Looking at current conditions, both methods should be applied. In view of the declining share of current financial expenditures in the use volume of the national income, the effects of financial deficits pushing currency inflation are far lower than before reform. Estimated on the basis of the macroeconomic pattern advocated by our organization's quantitative economic and technological economic research institute, the effects of the financial deficit multiplier on commodity prices are small, but the effects on social and gross consumption are rather large. During a period economic depression, a financial deficit's negative role is smaller than its positive role. Therefore, although we never approve deficit financing, and have advocated trying to affect the balance of financial revenues and expenditures, when viewed from 1991's macroeconomic regulation and control, certain financial deficits are unavoidable. In particular, the amount of fixed-asset investment indicated in the budget is already very small, and cannot be reduced. We may even consider arranging investment measures by using labor in lieu of relief in border areas and areas inhabited by the aged, young, and the distressed. Since an investment of labor-in-lieu-of-relief is basically converted into an outlay in consumption, its multiplier role at a time of market sluggishness and weakness is rather large. A billion-yuan in investment can create demand worth several tens of billion of yuan. From an angle of macroeconomic regulation and control, its role is much larger than increasing circulating fund loans.

In order to reduce the budget deficit, the country will increase business taxes in 1991. In our opinion: 1. If business taxes were not increased, the budget deficit could not be reduced. Increasing business taxes can reduce the budget deficit, but it will immediately lead to rising retail prices. Moreover, looked at from the current market condition, the detention period of the effects on market prices is relatively long. 2. The general price rises caused by increasing business taxes does not help improve the price structure. Hence it would be better to reserve the percentage rise in retail prices to readjusting and smoothing out of the price structure.

I. Foreign trade produces definite effects on balancing the two markets for consumer and investment goods. In 1991, there is still no obvious change in import demand. In the consumer goods market, since consumption demand is still being converted to a normal level, the price differential between imported durable consumer goods and domestic products is rather large. If the existing import tax rate on durable consumer goods is maintained, the demand for imported consumer goods will not rise. In the investment goods market, import demand has increased. Despite the fact that the state has arranged to reduce imports of the means of production, actual imports are determined by domestic market demand. Due to the relatively large, and favorable, foreign-trade balance in 1990, the state's foreign exchange reserves have increased, and thus the ability to stabilize the domestic market has increased. The 1991 planned arrangements for exports is \$43 billion, smaller than the actual 1990 figure. It is estimated that in actuality this plan will be exceeded, and it will thereby play a promotional role in the recovery and rise of industrial production.

In 1991, the new factor of currency inflation exists in the world economy. The principal points are: 1. The Gulf war reduced the world's oil supply and caused rises in oil price. On the other hand, it caused a drastic rise in the military expenditures of the warring countries. If the war should be protracted, becoming a consumptive war that wastes time and money, then there would inevitably be a high rate of currency inflation in the warring countries, particularly in the United States. 2. The Soviet Union and the Eastern European countries are currently in the midst of economic undulations and their currency inflation will continue. 3. World economic depression is highly disadvantageous to developing countries, who will face new difficulties in checking currency inflation. The above-mentioned factors of global currency inflation will, through external economic relations, be transmitted to China's economy. In the traditional structure, the transmission procedure will be manifested mainly in increased pressure on finance, a rather long detention period in the effects on commodity prices, foreign-trade enterprises having to be solely responsible for their own profits and losses after structural reform, removal of the financial subsidies originally given to import and export enterprises, and shortening of transmission procedure in currency inflation. This will demand that greater attention must be given to development changes in the world economy during macroeconomic regulation and control.

J. In the 1991 plan, attention has already been paid to the integration of enlivening the market and controlling currency inflation. But in actuality, the possibility exists that the production plan will not be met or will be exceeded. Seen from the current conditions, the 1991 fixed-asset investment funds have still not been fully realized, consumption demand is still not brisk, and it is necessary to adopt suitable measures to realize the investment plan, and also the production circulation plan. Market supply and demand and the rise and fall of commodity prices are closely related. The planned target for controlling the rise in retail price index is fixed at 6 percent in 1991, which is 4 percent higher than what was actually accomplished in 1990. Because there were many price adjustment measures in the fourth quarter of 1990, residual factors will cause a rise of 2 to 3 percent, and thus there is not much room for further maneuvering. Hence it will be necessary to make suitable arrangements for increasing investment and consumption demand based on the plan for industrial growth and circulation expansion. On the other hand, it will also be necessary to focus on preventing the reappearance of currency inflation due to a loss of control over fixed-asset investment and overly brisk demand. Considering the various planned targets for investment, consumption, production, and circulation in 1991, the retail price index will probably rise by 6 to 8 percent. However, if business taxes are increased and investment is out of control, this may become factors stimulating a rise in commodity prices, thereby changing people's anticipation of stable commodity prices, people's savings trend, and resulting in the reappearance and formation of double-digit currency inflation.

In the regulation and control work over the 1991 retail price index, we believe that special attention should be paid to the supply prices of nonstaple foodstuffs for urban residents. In 1987 and 1988, the price index for fresh vegetables rose by 17.7 and 31.1 percent respectively, both surpassing the rise in the retail price index in those years. They became the principal factors causing changes in residents' psychological anticipation and pushing the rise in commodity prices. In 1990, the prices of nonstaple foodstuffs were basically stable, and even dropped to a certain extent. This served as the supporting pillar for residents' psychological stability and the slight rise in the general level of commodity prices. In recent years in various localities, the establishment and effects of the "vegetable basket" project have been gradually displayed. This will play a role in stabilizing the prices of vegetables, meat, fowl, eggs, and fish in urban areas. However, recently, for the sake of reducing the financial burden, many localities have in turn removed the price subsidies on certain nonstaple foodstuffs. We believe such removal should be moderate, to avoid state-run commerce losing their regulatory and controlling power over the market and a general rise in commodity prices caused by the rise in prices of nonstaple foodstuffs.

Summing up the above, the anticipation for the 1991 macroeconomic situation is: The economy is still in a period of recovery and rising; in the first half of the year, the currency inflation rate may rise a little; in the second

half of the year, if the scale of fixed-asset investment expands gradually, and demand shifts from being sluggish to brisk, then the economy's surplus money will play its role, make waves, and, at year's end or early next year, currency inflation will reappear. Hence, it is necessary to perform a good job. On the demand side, it is still necessary to focus on controlling the total volume of investment and consumption. On the supply side, efforts must be devoted to readjusting the product and industrial structures, improving product quality, and increasing the variety of products, to suit changing demand under the new situation. We must also maintain the general balance in the total volume and structure of supply and demand, and adopt definite measures to prevent the recurrence of currency inflation in the second half of the year, particularly in the fourth quarter.

### III. Add Weight to Reform by Integrating Stability and Growth

K. Since 1979, in formulating the macroeconomic plan and economic policy, stability, growth, and reform have been the targets, and they are mutually associated and contradictory. In the course of China's reform, special systemic factors exist in the contradiction between growth and stability. Since reform is a rather prolonged historical procedure, the key to having the economy operate normally and gradually enter a benign cycle in a concrete year is to mutually connect the three targets and avoid the formation of "three separate skins."

L. As mentioned above, the planned arrangements in 1991 are to focus on both stability and growth. The bountiful harvest in 1990, improved conditions in the international balance of payments, and the appearance of a domestic buyer's market—to a definite degree and within a certain scope—have all created beneficial conditions for reform. Hence, we should grasp this opportunity and actively proceed with enlarging the weight of reform.

Adding weight to reform does not imply weakening the central government's power of macroeconomic regulation and control, but rather strengthening it. Since China's finances have always been in an extremely difficult situation, this difficult pattern cannot be changed within a short period. Moreover, because the interest pattern has already formed, readjusting the interest pattern and centralizing financial power will encounter many barriers. It will be all the more difficult at a time of lowering total economic effects. However, in planning the reform program we must adhere to the principle of pushing the rise in economic effects and improving the financial condition. We must not take the old road of delegating power and ceding interest, but must carry out reform centered on shifting the mechanism.

M. The market trend where supply definitely exceeds demand, which has appeared since the fourth quarter of 1989, undoubtedly offers a very good opportunity for price reform. There may have been certain changes in the current situation, but overall it is still beneficial to price reform. Hence we must grasp this opportunity, which may disappear soon, and deepen price reform. If it is said that reform in other sectors still suffers from many restrictions,

the conditions for deepening price reform are still the greatest. The concrete supposition is: 1. Raise the ration price of grain for urban residents. Since grain consumption costs account for only 6 to 7 percent of residents' total living expenses, appropriately raising the ration price of grain does not affect the retail price index to any great extent. From now on, the ration price of grain should be adjusted upward by 10 percent annually, or not less than the extent of the upward adjustment in the purchase price of grain. Aside from rationed grain, all price subsidies on grain prices should be abolished. At the same time, the system whereby the state grain structure unifies supply should be changed and the role of the grain exchange center should be expanded swiftly. 2. Merging dual-track pricing should be carried out for certain means of production, particularly in cases where certain planned prices of products are higher than market prices. The planned prices should be abolished and merged into single market prices. Meanwhile, we may retain dual-track prices when planned and market prices cannot be merged. 3. Change the price formation mechanism. Continuously deregulate prices of certain commodities, particularly when certain commodity prices have been deregulated but have been awaiting a decision on revision over the past two years. They should be deregulated as much as possible. Naturally, although it is a good time for price reform, reform measures should be kept within a range which society can bear. There are two kinds of raises in commodity prices. One is the gradual smoothing out of distorted prices, and the other is twisting the prices due to the return of comparative prices. The former is helpful in turning economic operations into a benign cycle; even though the scale of the rise is rather large, it is still worthwhile. The latter is not beneficial to economic operations; despite the low scale of the rise, it brings no benefit. Hence, in the course of price reform, the latter should be avoided. A precondition to price reform is the prevention of currency inflation.

N. The fact that in economic life state enterprises are weak in competitive power and produce low economic effects demonstrates the urgency of pushing enterprise reform and enlivening large and medium enterprises. However, in actual practice, enterprise reform is fraught with difficulties. Some comrades believe that because of the market's sluggishness and weakness and the fall in economic effects, the "pie" cannot be made larger, and pushing enterprise reform is difficult. In our opinion, it is precisely because of this that there is a need to push enterprise reform. Actually, the barrier does not lie here, but in the line of thought on reform. The current thought is that reform that separates the flow of profits and taxes and emphasizes strengthening the power of financial regulation and control cannot be easily pushed among the enterprises. Improvement of the contract system frequently stresses increasing enterprises' profit retention. Although it is said that "giving must come before taking," this is beyond finance's ability. This shows that if enterprise reform turns its eye on readjusting the interest relationship, then the pie is truly too small, and wider steps cannot be taken. Therefore, the major point in enterprise reform must shift from readjusting interests to shifting the mechanism. The target

should be to make enterprises become independent commodity producers, and change the wavering state of the enterprises' autonomous power so that they may become a true economic main body with respect to production, supply, labor, personnel employment, and distribution. Concurrently, it is necessary to set up a strong restrictive mechanism over enterprises and properly solve the problem of enterprises being responsible for profits but not for losses. We must be resolutely determined in auctioning off small enterprises and forcing deficit enterprises to declare bankruptcy. Indeed, there will be widespread reverberations if one or two of the 100 deficit enterprises declare bankruptcy. Along with pushing for reform in state enterprises, we must allow and encourage township enterprises to cooperate and join shares and stock with each other. There must also be a larger development of the private and individual economies, to open wide the door to employment and to enliven the economy. Furthermore, we should promote the organization of new types of enterprise groups with different ownership systems, and push adjustment of the industrial structure, with an emphasis on adjusting the existing capacity.

O. The major point in reforming the currency structure should be the improvement of macroeconomic regulation and control. The current system of credit and contracting for loans strengthens localities' power to distribute credit and loans. The system's demerits are greater than its merits, but for a time it cannot be changed. Hence, the major point should be to develop more kinds of financial assets, expand issues of enterprise and financial bonds, and increase the type and number of stocks and shares listed in the established stock markets. The practice of drawing interest on fixed deposits in advance should be revised so that long-term savings are encouraged; drawing interest in advance should be restricted. Correspondingly, we should fix the share of long-term savings deposits used for fixed-asset investment loans. The purpose of this reform is to smooth out the conversion mechanism of "savings to investment" and better integrate it with the target of stability and growth.

P. Aside from the abovementioned reforms on finance, price, enterprises, and currency, in the coming period we should proceed with reform of the social insurance and security system and the housing system. Actual practice has shown that due to the lack of a system for social unemployment insurance, poverty relief, or retirement or medical insurance, enterprise bankruptcies and workers' unemployment are not possible. This is because there is no mechanism for adjusting the economic structure, and increasing economic effects cannot produce any results. Reform of the housing system can not only reduce state financial subsidies, lessen the financial burden, and raise stable housing construction funds, but it also has the significance of promoting a change in the consumption structure. The principal difficulties in reforming the housing system are the low salaries and wages of cadres and staff and their reduced ability to bear the burden. A comprehensive push towards housing reform requires integration with wage reform. However, in the coming period

we should actively carry out some pilot projects to gain experience, and reform measures should be widened a little.

To sum up, in the economic reform of 1991 we must judge the situation and the trends, and proceed from what will be beneficial to economic stability and will promote economic growth. The target should be to promote the establishment of a new structure and shorten the period of dual-track operations. We must expand the weight of reform within the scope possible, yet on the other hand, we must avoid reforming everything around. In view of the possibility that in 1991 the market may not being brisk enough, economic development may be delayed or stagnant, and currency inflation may return, we cannot consider reform alone when expanding the weight of reform. We must properly connect it with economic stability and growth so that economic operations will gradually enter a benign cycle.

### Article Examines Readjustment of State Assets

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[Article by Feng Zhongyue (7458 0022 6390) and Yang Peifeng (2799 1014 1496), edited by Lin Daojun (2651 6670 0689): "Study of Readjustment of State-Owned Assets Stock"]

[Text] The readjustment of state assets stock involves the reorganization or redeployment of the state assets which form the overall production capacity, and includes compensated transfer of assets, enterprise mergers, bankrupting of enterprises, alliances between enterprises, the formation of enterprise groups and the creating of share enterprises. Through this readjustment, changes will occur in the organizational structure of state assets and in the rights and interests of owners. Such readjustment is of major significance in optimizing the economic structure and raising assets utilization benefits. For a long period in our country, as soon as whole-people fixed assets were formed, they were frozen and fixed. That is, they lacked normal circulation and this formed a situation where "money became fixed as soon as it was put into an enterprise." This not only produced investment demand inflation and serious distortion of the investment structure in our country, but also became a profound factor producing the situation where it is difficult to readjust the national economic structure.

### I. Analysis of Present Situation of Imbalance in State-Owned Asset Stocks

After liberation, the speed of growth in our country's state-owned assets was very swift. From 1950 to 1988, the total amount of investment in whole-people owned fixed assets was 2.4073 trillion yuan, of which the investment in newly-added fixed assets was 1.6789 trillion yuan. This growth was much more obvious after 1978. In 1978, the investment in newly added fixed assets was 14.9 times the investment in 1952, while in 1988 the figure was 61.8 times the 1952 figure. This played an inestimably positive role in the development of our country's national

economy. However, as in the existing economy there basically does not exist any readjustment of state-owned assets stock, the various contradictions hidden by the traditional system have gradually been manifested as a series of external clashes.

First, there was an expansion in the slanted growth in assets, leading to the concurrent existence of inflation in the overall volume of investment and an imbalance in the investment structure. For a long period, our country's economic development has traveled a path of high investment and low output. Because it was difficult to readjust state-owned assets stock, not only did the "investment hunger" give rise to the "growth impulse" which inevitably lead to extension-type expansion of reproduction becoming the major type of investment, but the readjustment of the economic structure also often relied purely on increasing assets. That is, readjustment was realized through the policy of slanting the increases in assets, so the structure of assets stock would, in the process by which investment was added, gradually move toward rationality. In the overall amount of investment in whole-people ownership fixed assets, the proportion constituted by investment in equipment, tools and utensils has seen a gradual decline. Prior to 1979, this figure was generally above 20 percent, while from 1980 until today, it has only been about 12-13 percent. (In fixed assets investment, investment in construction and erection projects is the index indicating increase in assets, while purchases of equipment, tools and utensils is the index indicating readjustment of stock, that is, the index of stock readjustment through growth.) This shows that in investment orientation, more investment has been put into increasing assets.

Investment inflation refers to where the money expended in investment exceeds the funds supply capacity and the goods and materials supply capacity. According to calculations, for the five years from 1983 to 1987, our country experienced investment inflation, and the inflation rate saw an upward trend. If we calculate on the basis of a 30 percent accumulation rate, the investment inflation rate grew from 2.5 percent to 37.9 percent. At present, the prominent problem in our country's economic life is that, because it is difficult to readjust assets stock, overall investment inflation and imbalance in the investment structure coexist and promote each other. From 1979 to 1987, the average annual growth rates in capital construction investment for the energy and raw materials industries (7 percent), and the transport, posts and telecommunications industries (8.7 percent) were clearly far lower than those for light industry (12.7 percent), commerce (18.1 percent), and urban construction (26.7 percent). In 1985, capital construction investment grew 44.6 percent over the previous year, the biggest investment growth during the nine-year period. During that year, manufacturing industry investment grew 47.1 percent, while investment in agriculture not only did not see growth, but actually saw a decline of 0.5 percent. Investment in energy and raw materials industries grew only 27 percent.

Second, the guidance of assets stock interests have led to the coexistence of plane expansion in assets growth or

plane shrinkage in assets stock. In our country, the investment orientation in increasing assets is subject to very great restrictions by the existing assets stock structure, and the pluralizing of interests entities has resulted in a clear strengthening of interests guidance in assets growth.

As assets stock cannot be transferred, there is no option but to take the existing assets stock structure as the base, and to implement equal distribution of profits. The equal distribution of profits from assets stock inevitably leads to equal distribution of assets growth and thus we fall into the mire of structural imbalance. When the economy is expanding, all enterprises use their existing equipment as the point of departure in increasing investment. When the economy is being cut back, the enterprises or industries with high efficiency are also subject to the cutbacks, and very rarely are the assets stocks of enterprises or industries with low efficiency transferred or reorganized. There are two indicators which can reflect this convergence of the economic structure. One is the AI index (the degree of industrialization of the industrial structure) which is the ratio between gross output value of agriculture and the gross output value of industry. The other is the LH index (the degree of light industry in the industrial structure), which is the ratio between gross output value of light industry and gross output value of heavy industry. From the changes in AI and LH indices for various areas throughout the country from 1981 to 1987, we can see that the average regional differentials for both in 1987 were smaller than in 1981. This shows that the AI and LH indices for the various areas are approaching their average value.

Third, the uneconomic scale of assets stock has led to the coexistence of shortages of equipment in one place and equipment lying idle for long periods in another. Because state-owned assets cannot flow or be reorganized among different departments, localities or enterprises, a great volume of production capacity which lies idle in state-owned enterprises cannot be brought into play, and each time a new product is developed, it has the adding of new investment as a precondition. This inevitably leads to an expansion of the scale of enterprises and an exacerbation of the situation where assets stock is not economic internally or externally. Thus, a strange phenomenon occurs: On the one hand, the departments and industries which should produce on a large scale, such as iron and steel, vehicle, cement, chemical fertilizer and so on, develop small enterprise production. This results in the assets stock being dispersed among various regions, industries and enterprises and it is difficult to form benefits of scale. In another respect, there is duplicate investment and duplicate construction, which produce a waste of resources. This is the case with color television and refrigerator production lines and so on. Because an excessive number of these have been added, there is insufficient work to keep them all operating and thus the equipment lies idle. This results in such assets stock being unable to meet the demands of benefits of scale. At the same time, because of the slow pace at which the technological level and degree of specialization of enterprises are being raised, a poor cycle is formed whereby "large and complete" or "small but

complete" operations are continually being reproduced. This has resulted in the emergence in our country's markets of the phenomenon of "three excessives and three shortfalls" in terms of demand for equipment: The demand for general equipment is too great and the demand for specialized equipment is too small; the demand for small-scale equipment is too great, while the demand for large-scale equipment is too small; the demand for low-grade equipment is too great, while the demand for high-technology equipment is too small. This is the major cause of coexistence in our country of equipment shortages and situations where equipment lies idle.

Fourth, the economic benefits of assets stock has declined, leading to the coexistence of consumer demand inflation and insufficient effective supply. There are two indices which can reflect this situation. One is fixed asset utilization. If we take the utilization rate of metal-cutting machine tools in key industrial enterprises throughout the country as an example, in 1976 it was 59.5 percent, while by 1985 it had declined to 50.3 percent and in 1989 it had further declined to 49.4 percent. The other is fixed asset productivity. This is the ratio between profits and original value of fixed assets. From 1.32 percent in 1984, this fell to 1.01 percent in 1987, a fall of 23.67 percent. The decline in economic benefits of assets stock directly affects effective supply in the whole society. The economic practice of our country has proven that shortage is not only a demand phenomenon but also a supply phenomenon. The decline in the economic benefits produced by state assets stock being unable to flow normally is a major factor producing the situation where consumer demand inflation and insufficient effective supply coexist. According to analysis based on "productivity of overall factors" (including assets deployment, economies of scale, and technological improvement), the rate of effect of assets deployment on our country's economic growth was very low, showing negative growth (-2.01 percent), while the figures for United States, Germany, Japan and South Korea were seven to 16 percent.

## II. Basic Causes of Imbalance in State-Owned Assets Stock

The defects of the economic structure and the structural contradictions of production factors are the basis reasons why it is so difficult to readjust the state-owned assets stock.

A. Structural factors. Under the traditional structure, on the one hand state-owned assets were not commodities and ownership rights and control rights over state-owned assets stock both belonged to the state. The enterprises only had use rights, and they were not allowed to freely engage in compensated transfer of equipment which could still be used. This produced a situation where shortages of equipment and equipment lying unused coexisted. In another respect, the ownership rights over state-owned enterprises' assets stock were very pure, meaning that the maintenance of the value or increase of the value of state-owned assets stock was unconnected with the income of the staff and workers of the enterprises. The partial ownership of state-owned assets stock by the laborers was negated, producing

an organizational and structural solidification of state-owned assets and there was no way to achieve normal circulation. This situation, where the national economic structure lacks an automatic readjustment function, created by the deficiencies of the traditional system, is a common problem met by all states which have implemented planned economies.

The dual structure has brought many changes as compared with the traditional structure, mainly manifested as: 1) The pluralization of interests entities. The stimulating force whereby different interests entities pursue the maximization of their own interests has been continually strengthened and become a catalyst and an motive force promoting the seeking of maximized income at the micro-economic level and the medio-economic level. 2) The property rights of state-owned enterprises are not clear. Although the separation of the two rights is gradually being realized through the reforms, as the problem has not been basically resolved, there is no way to cure the chronic problem of softness in the financial restrictions of state-owned enterprises.

The above two characteristics of the dual structure undoubtedly have had a major effect on the readjustment of state-owned assets stock. First, although the readjustment of state-owned assets stock only changes the organizational form of ownership and does not change the nature of the state-owned assets, because of the pluralization of interests entities, the circulation of assets stock of state-owned enterprises and the changes in the forms of organization of enterprises (the breaking down, merger, optimal arrangement and cooperative operation of enterprises) are still subject to obstruction and restriction from many sides. This produces a situation where, in name, state-owned assets stock is centralized and unified, but where in fact it is split and dispersed. Second, because the property rights of state-owned enterprises are not clear, the enterprises cannot really take sole responsibility for profits and losses. Thus, they do not seek profit maximization, but seek income maximization. The ownership rights over enterprise assets belong to the state and the enterprises only have use rights, and thus naturally the enterprises lack any enthusiasm for retaining funds from profits to invest in increasing assets. They also lack any motivation for readjusting stock assets. Third, as the market mechanism is incomplete, prices are still seriously disordered, the national unified market has been artificially split up and blockaded by the various regions and thus there is absolutely no market by which to achieve readjustment of assets stock and there is no way to produce external competitive pressure on enterprises. The joint effect of the above three aspects makes it difficult for a self-adjustment mechanism for state assets to be formed.

**B. Economic factors.** In the current economic life of our country, there exists a major factor which restricts the readjustment of state-owned assets stock, and that is the structural contradictions in the organization of production elements. This is manifested in that the combination of rich labor resources which are continually being produced and the relatively poor state-owned assets stock which is restricted by the level of accumulation and the rigidity of

interests, forms a low-level, unbalanced organization of production factors. First, within the state-owned enterprises, there are a large number of persons who "have jobs but are out of work." Not only does this directly reduce labor productivity, but also results in a major decline in assets benefits. Recent data show that over the last 40 years, there has been a marked inverse relationship between the growth in staff and workers in state-owned enterprises and the growth in labor productivity. That is to say, the higher the growth in staff and workers, the lower the growth in labor productivity. In the two periods 1966 to 1978 and 1979 to 1988, the relationships between growth in staff and workers and growth in labor productivity were 7.1 to 2.1 and 3.1 to 8.8. From the index of profits obtained from 100 yuan of original value of fixed assets, we can see that assets benefits have long seen a decline. From a figure of 23.6 yuan in 1957 (the highest figure on record), it fell to 20.9 yuan in 1965, 16.2 yuan in 1979 and to only 13.7 yuan in 1984. In 1985, there was a slight improvement, but it did not reach the highest level of the past. In 1987, the figure was 19.7 yuan, in 1988 it was 20.2 yuan and in 1989 it was 18.2 yuan. Second, the surplus of labor in state-owned enterprises and the low degree of equipment provision, have meant that some production facilities have been overused. This has led to the early qualitative decline in assets stock and an increase in production costs. From 1953 to 1988, the average load on fixed assets in state-owned enterprises was 100.1 percent. This shows that in the majority of cases, production capacity was very tight with serious overloading and even the use of equipment when it should have been undergoing repairs. This led to a growth in resource consumption and an increase in production costs. Enterprises' comparable product costs fell by 0.9 percent in 1979, but rose by 7.5 percent in 1985, and in 1989 rose by 22.4 percent. Third, a great volume of backward and outdated equipment which should be scrapped continues to be used. Not only does this strengthen the trend by which enterprises continue to use old techniques and old technologies, but also seriously obstructs the technological advance of assets stock. Over the last few decades, the ratio between the total amount of depreciation of state-owned fixed assets and total investment in fixed assets has seen a marked decline. In 1962, the figure was 44.83 percent (the highest level on record), in 1975 it was 17.12 percent, in 1979 it was 24.81 percent, in 1985 it was 22.37 percent, in 1988 it was 18.10 percent and in 1989 it was 17.15 percent.

The structural contradictions in the organization of production factors have been further deepened under the dual structure. On the one hand, because of the rigidity of the plural interests, it often occurs that people flinch at the idea of readjustment of assets stock. On the other hand, because the mechanism by which enterprises draw in surplus labor still exists, the rational flow of labor is difficult to achieve. (The problem of "having a job but being out of work" and the circulation of labor in state-owned enterprises will be discussed in another article.)

### III. Results of Imbalance in State-Owned Assets

There is a tight relationship between economic growth and investment; and fluctuations in investment are a major

factor producing economic fluctuations. Research has shown that in the cyclical fluctuations of our country's economy, the fluctuations in investment efficiency have been greater than the fluctuations in the investment rate, and that the fluctuations in investment efficiency have had a greater effect on fluctuations in economic growth. This shows that the changes in investment efficiency are a profound factor in the cyclical fluctuations of our country's economy. Why is it that investment efficiency produces such sudden rises and falls?

First, imbalance in overall volumes. In our country's economic movement, attention is only paid to input which increases assets, while the readjustment or assets stock is overlooked. This leads to an imbalance between overall volumes in the national economy. Thus when total social demand is greater than the total social supply, the rapid expansion of investment brings with it a rapid expansion of industrial production, thereby exacerbating the deterioration of the supply-demand situation and leading to widespread and large-scale shortages in resources supply. Such shortages can cause a reduction in investment efficiency by lengthening the investment cycle, increasing investment in unfinished projects, delaying the completion of new production capacity, and forcing some enterprises to stop work to await materials. On the other hand, when total social demand is less than total social supply, because of the decline in both investment and production, some production equipment lies idle, production capacity operates at a low load, investment in unfinished projects declines, the shortage of resource supply is gradually alleviated at a low level and this results in investment efficiency slowly improving.

Second, structural imbalance. Since liberation, our country's economic development has remained in a changeover stage with a dual economic structure. At this stage, there is basically a direct relationship between the changes in investment efficiency and the changes in the proportion which the industrial sector provides to national income, while there is a negative relationship between it and changes in the proportion which the agricultural sector provides to national income. (Footnote 1) (Liu Guoguang, chief editor: "Stable Economic Growth During Structural Reform" CHINA PLANNING PUBLISHING HOUSE May 1990 First Edition, p 92) This is because, under the traditional structure, our country adopted the development strategy where heavy industry took the lead. This strategy was not established on a firm base involving coordinated development with agriculture and light industry, but actually involved a road where the urban and rural areas were separated, agriculture was sacrificed, there were mutual blockades, the degree of self-serving was quite great and economic benefits were low. The specific manifestations were: The fluctuations in industrial growth were mainly fluctuations in the growth of the heavy industry sector, and the fluctuations in the growth of heavy industry were mainly given rise to by the fluctuations in the growth of manufacturing industry. When a great growth in investment demand spurred growth in heavy industry, because the manufacturing industry within heavy industry had a particularly high consumption of intermediate products, as

soon as the investment formed new production capacity, this high consumption rate meant that there was formed a greater demand for intermediate products. Clearly, this structural imbalance which exists within the industrial economy, where shortages produce shortages, inevitably leads to intense fluctuations in investment efficiency. More importantly, as our country's economy does not have a self-adjusting mechanism for state-owned assets stock, there is no way to achieve optimization, that is, rationalization and improvement of the industrial structure, through such readjustment. That is to say, there is no way to get assets stock which is lying idle within enterprises to flow normally to other enterprises within the industry, and no way to have assets stock which is lying idle because it produces products in full supply, to switch to production of "bottleneck" products. It is even more impossible to improve enterprises' technological quality and benefits of scale through changing the organizational form of enterprises.

Third, the simultaneous occurrence of imbalance in overall volumes and structural imbalance. Theoretically, in national economic movement, whether or not the expansion of the scale of overall demand and its corresponding structural changes will harm the balance of overall volumes in the next economic cycle is directly determined by the supply elasticity and supply structure of the national economy. It is also often the case that the orientation of assets increase given rise to by the assets stock structure determines the degree of fluctuation in the subsequent economic cycle. Seen from the current situation, in a period of economic growth, intense "investment hunger" forms a great investment demand, possible resulting in the growth of total social supply being unable to meet the growth in total social demand. As the supply-demand gap grows wider, a widespread supply shortfall will result, producing an imbalance between the overall volumes. This imbalance in overall volumes may in turn produce a structural imbalance. On the other hand, because the supply shortfall is not evenly distributed, a rapid growth in the manufacturing industry will result in the rapid appearance of some resource shortage "bottlenecks" in the national economy. These will be seen in areas such as energy, transport, raw materials and agricultural products. In another respect, because the interests guidance in state-owned assets growth is clearly strengthened, it will mean that the equalization of profits from assets stock will produce equal distribution in assets growth. This lightening and dispersal of the industrial structure will further expand the supply-demand gap and lead to a structural imbalance of the entire economy. This structural imbalance will result in an increasing deterioration in resource deployment benefits, which in turn will exacerbate the imbalance between overall volumes. When this pernicious cycle reaches a certain point and the national economy is unable to bear it, economic development will be forced to switch from economic expansion to economic contraction. This shows that the simultaneous occurrence of imbalance of overall volumes and structural imbalance

will inevitably produce fluctuations in investment efficiency and thereby give rise to cyclical fluctuations in economic growth.

In brief, imbalance in overall volumes and structural imbalance given rise to by imbalance in state-owned assets stock, as well as the fluctuations in investment efficiency given rise to by the double imbalances are the profound factors which determine the fluctuations in our country's growth cycles.

#### **IV. Formation of Readjustment Mechanism for State-Owned Assets Stock**

A readjustment mechanism for state-owned assets stock involves essentially, the defining of state-owned enterprises' property relationships, so through the reorganization of assets stock, optimized deployment of resources can be achieved. On the formal level, it involves the rationalization and improvement of the assets structure through compensated transfer between state-owned enterprises, mergers, reorganization of assets, alliances and redistribution of the assets of bankrupt enterprises. This includes: 1) The transfer of enterprise assets stock, which is lying idle because of a marked decreased in demand or a lack of competitiveness, to enterprises which have good economic benefits and strong competitiveness in the market. 2) The transfer of idle assets in industries which have no development prospects or clearly surplus production capacity, to industries which meet social demand or to "bottleneck" sectors. 3) The transformation or circulation of the assets stock of enterprises which have a low technical quality or irrational scale, the strengthening of specialized division of work and the raising of the technical level of enterprises.

In the history of industrial development in various countries of the world, the readjustment of assets, the alliance and merger, dispersal and bankrupting of enterprises have frequently occurred. It can be said that the circulation of assets stock is an indispensable factor for achieving the flourishing development of the national economy.

Over the last 40 years, our country has seen two national readjustments of state-owned assets stock. The first was from 1962 to 1965 and the second was from 1979 to 1982. These two readjustments were forced by pressure from serious imbalance in national economic development, and the state had no option but to readjust state-owned assets stock through forcibly closing down, suspending, merging, or switching the production of some enterprises through administrative measures. These two readjustments did play a positive role in readjusting the economic structure and in the optimization of resources deployment. However, it cannot be denied that the use of administrative measures to readjust assets stock brought with it the defects of forced reorganization, administrative forced mergers, the combining of profitable and the loss-making operations, and blind centralization. These measures protected the backward, deflated the enthusiasm of profitable enterprises and also encouraged the expansion of assets stock. This in turn strengthened the rigidity of assets stock. The accumulated effects planted a root of trouble which promoted further imbalance of the economic structure.

The limitations and problems of administrative readjustment of state-owned assets stock can thus be seen, and this shows the necessity of forming a readjustment mechanism for state-owned assets stock.

Because our country is at an historical stage where the old system is changing into the new, the formation of a readjustment mechanism for state-owned assets stock will inevitably require a process over time and cannot be achieved in one step.

In the near term, we can deepen the reform of the ownership of state-owned enterprises, clearly set down property rights relationships between the state and the enterprise, further develop various forms of state-owned assets stock readjustment and greatly develop an assets stock market. The setting down of enterprise ownership right relations should be implemented as an addition to the reform goals of the Eighth Five-Year Plan, and efforts should be made to achieve this goal so that the position of the state as the ultimate owner, that is as the ultimate owner of the whole-people means of production, is maintained, while the state-owned enterprises have corporate ownership rights and become entities which independently exercise overall operational rights. Here, what is meant by corporate ownership rights is property rights. This is the intermediary between ownership rights and operating rights. It allows the enterprise to exercise effective control over operations and can also guarantee the independence and operational scope of the operating rights. Under this precondition, it is possible through developing stock readjustment between state-owned enterprises through compensated transfer, merger, alliance, dissolution and distribution of assets of bankrupt enterprises, to develop an assets stock market. As at present our country only has an incomplete assets increment market and no assets stock market, the development of an assets stock market is a major component part of the near-term goals in the formation of a state-owned assets stock readjustment mechanism.

Seen from the long term, it be possible through developing a property rights market, to convert state-owned assets into shares and finally establish a state-owned assets stock readjustment mechanism. An assets stock market and property rights market are both component parts of a production element market system. The former is manifested as a material goods market, while the latter is manifested as a share and bond market. After an assets stock market has been formed and the near-term goals have been realized, we should gradually develop a property rights market. Under commodity economy conditions, the combination of production elements not only must not be static and stagnant, but requires that the production elements be continually turned into money and shares. Thus, assets circulation and property rights circulation, as well as mutual transfer between these two, is the crux in the formation of a state-owned assets stock readjustment mechanism. In the process of developing a property rights market, the issuing of shares for state-owned assets should be carried out concurrently. On the one hand, state-owned assets ownership rights should be put into the market through the form of property rights, that is, as negotiable

securities (shares or debentures), so they become economic rights which can be utilized and which can circulate in the market. Thus, gradually state-owned assets will be turned into shareholdings. On the other hand, the property rights of state-owned enterprises will restrain operating rights, will stipulate the scope within which enterprise assets can be traded and will take on the risks. The operators will only be responsible to the property rights carriers (the board of directors) and will have independent operating rights. In this way, state-owned shareholding companies will gradually be formed. It can be seen that the degree of development of a property rights market and the degree to which state-owned assets are turned into shares will directly affect whether or not a state-owned assets stock readjustment mechanism can be established and perfected, and will directly affect the competitiveness of state-owned enterprises in the socialist commodity economy.

The formation of a state-owned assets stock readjustment mechanism will not only be of benefit to the rational use and normal circulation of state-owned enterprise assets and property rights, and to raising the economic benefits of enterprises, but will also be of benefit to the readjustment of our country's economic structure and to the stable and coordinated development of the national economy.

#### **Adhere to Market Direction, Tighten Market Regulation**

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[Article by Yu Zuyao (0060 4371 1031), Responsible editor: Lu Wen (7120 2429): "Adhere to Market Direction and Tighten Market Regulation"]

[Text] The way the Chinese economy is operating today fully demonstrates the role of the market in regulating the macroeconomy and microeconomy. The trend tightening market regulation is irreversible.

**Reflation or Stagflation: The Challenge Facing the Drive To Improve the Economic Climate and Rectify the Economic Order**

After two years of economic rectification, economic overheating has been checked and the momentum of demand explosion has been curbed. Today, the Chinese economy is at a critical juncture: it is caught in a dilemma. We are faced with three possible scenarios: a new round of demand explosion and super-fast growth, stagflation, or sustained, steady, and coordinated development. What we badly need to do right now is to figure out how to avoid the first two disastrous scenarios and do our best to realize the third scenario.

Some scholars take a look at the market and conclude that retrenchment has outlived its usefulness. They propose that the tight money policy be relaxed to stimulate demand, jump-start the economy, and spearhead a market recovery. This view ignores the cause of the economic cycle in China as well as the characteristics of its evolution. They fail to see the hidden danger of another resurgence in aggregate social demand amid the recession in the market right now.

First of all, the root cause of economic overheating a couple of years back—the institutional factor—is still operative. Thus far the main tool in economic rectification—the tool of regulating the aggregate volume—is primarily a coercive administrative measure. Administrative tools are instantly effective in checking an economic disaster, but cannot get at the root of the problem and even show penchant to reinforce the old system. If we do not seek a way out through reform, the possibility that the old system would reassert itself cannot be ruled out. The experience of repeated economic rectification drives proves that when the old system reappears, so does another round of economic expansion.

Second, while the gap between aggregate social demand and aggregate social supply is narrowing, the fundamental dimension of the imbalance have not changed. To begin with, fixed assets investment is still on the rise and the scale of projects under construction is still expanding. In 1990, completed fixed assets investment is expected to hit 450 billion yuan, more than in 1988. Thousands of billions of yuan worth of projects under construction constitute a tremendous pressure for an investment explosion. Second, savings by urban and rural residents and the amount of cash they have on hand continue to increase. The amount of currency withdrawn from circulation far exceeds that of commodities withdrawn. Unlike stocks, savings and cash can be converted into real purchasing power any time. We cannot afford to ignore such enormous potential purchasing power when we calculate social demand. At present the state-owned commercial sector is ill-equipped to adapt to and accommodate market demand. Third, what appears to be a tight money policy on the surface is actually an easy money policy. The scale of lending continues to rise. By late November 1990, bank loans increased 212.5 billion, or 17.1 percent, over the beginning of the year. The expanding scale of lending earlier and the quickening momentum in the growth of the money supply are bound to intensify the inflationary backlash. Fourth, workers' wages continue to rise strongly. Total workers' wages climbed 13 percent in 1990, higher than the 7 percent gain in industry. Fifth, the deficit in the budget of the central government remains stubbornly large while localities are strapped for funds. Banks are under pressure to boost the money supply faster than economic expansion and increase credit. Sixth, the quality of enterprises has generally been slipping, with a drop in profits across the board. To ensure that funds are available to pay taxes to the government, enterprises have been pursuing fast growth. This suggests high inputs, low outputs. The increase in effective supply trails the expansion of social demand.

We can thus see that if we ignore the root causes of the current recession and pin our hopes for an economic recovery exclusively on easing the tight money supply and stimulating demand, the possibility of a demand explosion will definitely become a reality.

However, now that the overheated economy has cooled down, we cannot rule out the possibility that the economy will slide into stagflation should we continue to intensify the extraordinary measures now in force.

First, it is no longer possible to sustain fast economic growth with high inputs. The situation in agriculture remains grim; neither the state nor the peasant household is in a position to step up agricultural investment in the short run. With profitability falling all around, state-owned enterprises are not capable of self-accumulation. With the government coffers spending more than it takes in, the government cannot continue to operate on too large a scale and undertake all sorts of big projects.

Second, price increases have been leveling off, but inflationary pressures have not been eliminated. Hidden inflation continues to rise. To begin with, price increases dropped to 2 percent or so in 1990, down from 17.8 percent in 1989, but this came about mainly through administrative measures and at a price—higher price subsidies. Experience proves that you absolutely cannot maintain prices at a certain level administratively for long. What government subsidies do in effect is simply masking inflation. At present the government has to dish out 5 yuan in subsidies for every 100 yuan worth of commodities sold. For every 1 percentage point drop in the price index in large cities, the government has to shell out 30 to 40 million yuan more in subsidies. In the case of Beijing, Shanghai, and Tianjin, such subsidies amount to a high 100 million yuan. Price subsidies have become an unbearable burden on the government treasury. Second, purchasing power to be realized has remained persistently high even as effective supply has not been increased rapidly due to the slow pace in industrial restructuring. Third, the economic performance of most enterprises has been deteriorating. Cost-led inflation has become a new source of economic instability. Fourth, although the latest round of upward adjustment in prices is justified, we can hardly deny that it is a piecemeal approach that magnifies the costs of price reform while failing to avoid the restoration of old price ratios, touching off a new bout of inflation.

Finally, there has been an across-the-board increase in the number of people who are unemployed, underemployed, or are waiting for jobs. The 1990's represents a new peak in employment when about 8 million people of employable age have to be placed in jobs each year. The non-agricultural sector in the countryside has been slowing down and cannot create enough jobs to absorb all workers who lost their jobs because of the shake-out among township and town enterprises, thus pushing the rural unemployed to more than 200 million people. In cities, industrial structural readjustment and enterprises operating under capacity have likewise swollen the ranks of the unemployed and underemployed. In addition, the number of people on the job who are waiting for employment has gone up to between 20 and 30 million.

In short, we find ourselves in a box right now. To provide employment and prevent a drop in the people's living standards, we must keep the economy growing at a fairly brisk pace. But fast growth cannot be separated from inflation. To check economic overheating and hold the line on price increases, we must take the risk of increasing unemployment and enterprise bankruptcies. Stagflation is not some imaginary abstract possibility.

#### Existing System: The Barrier To Lifting the Economy From the Doldrums

The current economic cycle in China has occurred in the course of reform. It differs from the economic boom-and-bust cycle in developed Western nations and is not entirely similar to the succession of economic readjustments in China after the PRC was founded. First of all, the causes are different. The boom-and-bust in Western economies is caused by fundamental contradictions in capitalism and usually takes the form of insufficient demand. In contrast, the Chinese market thus far has not yet formed a relatively stable buyers' market where supply slightly exceeds demand, where effective supply exceeds demand backed by purchasing power. Even the sluggishness of the past few years is partial and temporary. Second, they take different forms. The expansionary drive of private capital is subject to dual regulation—rigid budgeting and rigid market regulation, so economic overheating usually translates into fast growth that exceeds what national strength can bear and industrial structural dislocation. Once aggregate supply exceeds aggregate demand, the economy goes into recession. The situation in China today is that the imbalance in aggregate volume takes the form of an excess of demand over supply. The imbalance in aggregate volume coexists with a lopsided industrial structure, the shortfall in effective supply coexists with an excess of production capacity, and partial market sluggishness coexists with shortages in certain "bottleneck" industries. Moreover, these contradictions are interwoven with one another. They influence and condition one another. Third, the scope is different. The decline in industrial production goes hand in hand with a string of hefty budget deficits, credit explosion, and a money supply that expands faster the economy several years in a row. The decline in production is part and parcel of the fiscal crisis and credit crunch. Even when the economy is in recession, inflationary pressures remain. Fourth, the vehicle of economic operations, namely the system, is different. Ever since reform went under way, the economy has become commercialized. The economy has become a commodity economy and was monetarized to a substantial degree. The regulatory function of the market has become more and more pronounced. However, the "big rice pot" thus far has not been smashed. Consequently market risk coexists with the social security system. These characteristics vastly complicate readjustment, proving that what plagues the Chinese economy today is not the kind of market sluggishness caused by a lack of demand, as is the case in the West. Nor is it the usual kind of proportionate imbalance. Instead it is a "syndrome." Accordingly, what is needed is comprehensive treatment.

Reforming the existing system, that is, the system which came into existence since reform went under way, is the only way out and the basic anti-recession strategy.

During the decade of reform, the Chinese economy has undergone enormous changes. But it seems premature to assert that we have entered a stage where the two systems coexist or the old and new systems operate at the same time. According to the "Decision on Economic Structural Reform" of the CPC Central Committee and the Seventh

Five-Year Plan "Proposal," it is imperative that we carry out coordinated comprehensive reform revolving around these aspects—the enterprise system, the market system, and the macroeconomic regulatory and control system—in order to create a socialist commodity economy with Chinese characteristics. Thus far, however, no decisive measure has been taken in any of those aspects. Some of the more important reform measures introduced in the past decade are consistent with the spirit of the "decision" and have been remarkably successful. Others, on the other hand, have deviated from the direction of reform. For instance, the dual-track price system was touted by some as the "road to price reform with Chinese characteristics" and was strongly endorsed. It was popularized and amplified only to cause extreme distortions to the price system, throwing the market into chaos and opening the floodgate of speculation and profiteering. Or take financial contracting. Originally intended as a mere stopgap measure to relieve the burden on the national coffers and stimulate the localities to increase revenues and cut spending, it nevertheless was adopted as a reform measure and was widely implemented. The result of level-by-level contracting is that the fusion between government administration and enterprise management is further reinforced and the macroeconomic regulatory and control function of the government finance agency is hampered. Or take enterprise contracting system. That too was praised as the "Chinese way to enterprise reform" at one point. In reality, however, it merely replaced administrative orders with contracts. The enterprise is still trapped in the framework that combines government administration with enterprise management, its direct linkage to the market severed. Thus we can see that these measures deviate from the three-in-one market direction.

The introduction of the above-mentioned measures has disrupted the old system and broken the monopoly that the old system used to enjoy. The way the economy operates has begun to exhibit new characteristics: While the level of productive forces is still low and the commodity economy underdeveloped, the scope of the market is expanding endlessly with the result that the exchange between power and currency has become more and more common. There is a separation of power among the central government, local governments, and enterprises, but the framework is still one where government administration and enterprise management are merged. Formerly the appendages of the central government, enterprises now have become the appendages of local governments at all levels, giving rise to local economic fiefdoms practicing economic separatism. There has been a diversification of players each with its own interests, but even though the financial power has been delegated to localities, the authority to run things still resides in the central government. The enterprise assumes responsibility for profits only, not losses. As a result, both enterprises and localities are eating off the "big rice pot" at the expense of the state. The market mechanism has been injected into the price system, but the multi-track system has caused utter chaos to regulation and severely distorted market signals. A central banking system has been established and loans have now replaced direct grants by the

government, yet the banks remain subordinate to governments at all levels and cannot exercise their regulatory function independently. By delegating authority and allowing enterprises to keep some profits, the central government has breathed life into the economy. By the same token, however, it has also spawned chaos resulting from excessive competition coexisting with heightened monopoly.

The above characteristics in the way the economy operates gives the existing system its special features that distinguish it from both the traditional system in existence when reform began and the classic transitional model that can be found when the traditional system is giving way to the socialist commodity economy. It seems that it fits neither the classification system of comparative economics nor Kornai's scheme of classification for transitional systems. Can it be said that the existing system is a distortion that arises when reform deviates from the set objectives? It can neither put the advantages of the economy of centralized planning to use nor make use of the market mechanism in a positive way.

The current system has become the principal roadblock to pulling the economy from the hole it has dug itself into and achieving the goals of improving the economic climate and rectifying the economic order all round.

—The present system is potentially inflationary. The pressures for pushing hidden inflation out into the open are mounting. Cost-led inflation is now joining forces with potential demand-led inflation.

—It is the existing system that is hampering our drive to extricate the economy from its dead end by straightening out the price system and readjusting the price structure. According to the rules of the normal business cycle, when the economy slides into recession, the market loses steam, competition heats up, and enterprises would spontaneously cut costs and prices in order to survive. This will get the assets and goods moving, ultimately leading to a full economic recovery. Accordingly, the price mechanism holds the key to economic recovery. A long-term price freeze may hold down the inflation rate temporarily, but it also inevitably deepens the recession, making stagflation all but inevitable. Right now price reform has been put on the agenda and the emergence of a limited buyer's market has also set the stage for price reform. However, when both the need and the time have come to reform, we cannot and dare not make a move.

—Coupled with the abnormal industrial structure, the pattern of interests created by administrative measures to delegate authority and allow enterprises to keep profits has erected a barrier to the readjustment of the industrial structure. Structural readjustment can be achieved in either one of two ways. Increasing assets investment or reallocating assets. The former is premised upon the present system and does not require a change in the present pattern of interests, so it encounters less resistance. On the other hand, it entails a steep price and carries a heavy burden. The latter approach offers a short cut to structural optimization, but it

necessarily hurts the vested interests of some localities, sectors, and enterprises, and is premised on the reform of the existing system. The pattern of interests formed by the existing system impedes the formation of a unified competitive market, impedes the rational circulation of resources and commodities, and saps the energy of well-placed enterprises. To rely on the current system to adjust the industrial structure will only take us down the old beaten track of inflation alternating with readjustment.

- The existing system is not conducive to making the enterprise better able to cope with and adapt to the economic cycle. To give an enterprise decision-making authority in its operations is not necessarily to revitalize it. The commodity economy is a risk economy. Whether or not the enterprise is vital depends not only on its competitiveness in good times, but also on its ability to adapt to and survive business cycles. The sluggishness that hits parts of the market in recent years would have been overcome without too much difficulty through microeconomic regulation by the market and the enterprises' own adaptability. However, the current enterprise system is not so equipped.

When we mention deepening reform these days, we mean, more precisely speaking, consolidating and furthering the achievements of a decade of reform, reforming the present system in depth, and accelerating the transition to a socialist commodity economy. Specifically it involves the following tasks. First, we must amplify, improve, upgrade, and coordinate with other reform measures that are consistent with the direction and goals outlined in the "Decision on Economic Structural Reform" and have begun to bear fruit. Second, measures that deviate from the goals of reform and make it more difficult for the economy to get out of its hole must be done away with. Even if we cannot do away with them immediately, we should diligently create the conditions for reform. Third, what necessary transitional measures there are should be quickly readjusted to accentuate the positive and minimize the negative so as to bring it closer to the objectives. Fourth, a remedial effort must be made to introduce reforms in areas which have been lagging or which have been neglected. Only if a distinction is made among the above can we steer clear of the detours in our reform and avoid major mistakes.

#### A Feasible Option: Adhering to the Market Direction and Tightening Market Regulation

To continue to reform the current system, we must adhere to the market direction. So-called market direction means the reform direction—planned commodity economy—established by the CPC Central Committee in its "Decision." It also means coordinated reform revolving around the three-in-one mission put forward in the subsequent proposal relating to the Seventh Five-Year Plan.

One of the objectives of adhering to market direction is to build a regulatory mechanism, make the market a more effective regulator of the behavior of the various players each with its own interests, and expedite the sound circulation and optimal allocation of resources.

The law of value operates mainly through market regulation. In any economic system and institution, as long as there are commodity monetary relations, as long as there is a distinction between individual labor and socially necessary labor, and as long as the labor of producers is not directly social, the survival and development of any player must depend on the "fateful leap" from commodity to currency; it must be subject to the inspection of the authority of currency as an ordinary equivalent. If an enterprise recognizes the objectivity of market regulation, operates in accordance with the law of socially necessary labor conscientiously, and respects the authority of money, it can realize its own self-interests by providing a good social service. In contrast, if it ignores market regulation and acts willfully and recklessly, it will be punished by the market with bankruptcy, closure, and recession. Market regulation of each player is mandatory and cannot be resisted.

In market operations, market regulation plays a role that cannot be replaced by any other regulatory mechanism. The object of regulation ranges far and wide. Besides enterprises and individuals, the state, as the owner of public assets and regulator of the macroeconomy, must also submit to market regulation. Market regulation is rigid regulation where interests are commensurate with risks. No player will be given supra-economic privileges. The rules of market regulation are uniform and apply to all players equally. They compete on a level playing field. The strong win and the weak are eliminated. Market regulation is premised on behavioral autonomy for the unit being regulated. The goal of market regulation is to energize and vitalize the economy. Market regulation does not conflict with administration and legal regulation. Nor are they mutually exclusive. The modern commodity economy is an economy governed by laws. A comprehensive legal system is needed to regulate human behavior. The rule of law is needed to maintain the stability of the economic order. Market regulation combines economic regulation with legal regulation, thus making itself irresistible and mandatory.

If we analyze the more important reform measures unveiled in the past couple of years, we can see that the reforms have not been consistently thought out based on the need to strengthen the regulatory role of the market. On the contrary, market regulation has been eroded and even stifled in many ways. To begin with, the preconditions for market regulation have been disrupted. The regulatory role of the market is preconditioned upon the normal development of the market and the formation of a market system. Because of the introduction of the contract system of all forms and shapes across the board, particularly financial contracting at the various levels, the formation of a unified market has been hampered and government administration-enterprise management fusion has been strengthened. Although the scope of regulation by command planning has been reduced, governments at all levels have stepped up direct interference in enterprise operations and activities. Second, the objects and scope of market regulation have been restricted artificially. The

enterprise is the basic undertaker and organizer of production in society and as such is the principal target of market regulation. Nevertheless, because of the widespread adoption of the contract system, the direct linkage between the enterprise and the market has been severed. Market regulation of enterprise behavior has been replaced by bargaining at the negotiating table; the contract has become a "haven" for the enterprise. The government continues to take on the risk of doing business in place of the enterprise. Moreover, the leverage mechanism of market regulation has been suffocated. The banks dig deep into their wallets and make loans. Government financial subsidies are not subject to regulation. Taxes are cut or waived at will. The practice of "eating off the big rice pot" continues to exist in new guises. As a result, interest rates, taxes, and prices remain symbols of calculation and tools of calculation and cannot fulfil their intrinsic regulatory role. Finally, the deterioration in the macroeconomy and environment of market regulation have prevented market regulation from working as effectively as it should. There is no alternative but to force people to restrain their behavior through a recession, full or partial, that is effected by destroying productive forces.

Strengthening and tightening market regulation is an inevitable trend inherent in the nature of productive forces. The contradiction between soft budget regulation and hard market regulation is a tricky issue that must be resolved if we are to deepen reform today. Kornai sums up the regulatory mechanism in the traditional system as soft budget regulation, which suggests that the enterprise's own balance sheet is not what determines an enterprise's survival and development. In this sense, the regulatory mechanism in China's current system is also soft budget regulation. Soft budgeting and hard market regulation are fundamentally opposed to each other. Since the socialist economy is a planned commodity economy, economic operations must be subject to market regulation. Under the current system, so-called soft budget regulation is essentially nonregulation. This is why. Given the fact that its survival has nothing to do with its balance sheet, an enterprise, needless to say, considers the budget a mere symbol or tool of calculation. Even command planning and a notarized contract have only flexible regulatory force. An enterprise may bargain its way out of such regulation. And when its earnings cannot cover its expenses, it may pass on the shortfall to better enterprises or the government treasury. But while the enterprise escapes direct regulation by the budget, the budget cannot free itself from market regulation. Once budget nonregulation leads to widespread shortsighted behavior on the part of enterprises, and once the government finds itself in budgetary woes, the market in the final analysis must force the enterprise to modify its behavior. It is imperative that market regulation be tightened.

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### Difficulties Facing Large, Medium State Enterprises

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[Article by Wang Xiaosheng (3769 1420 3932): "Causes of, Responses to Difficulties Presently Facing Large- and Medium-Sized State Enterprises"]

#### [Text] I.

With economic growth and the continued deepening of reform, state industrial enterprises, particularly large- and medium-sized state enterprises, lack vitality and the ability to respond to market competition and structural readjustments when compared with the township, collective, and foreign-invested enterprises that started up in the past few years. Some of the problems hidden in "high-speed" economic growth have gradually become apparent in the "retrenchment policies" of improvement and rectification. The situation enterprises face is very severe. This is shown primarily by the following:

First, production continues to grow negatively. According to some statistics from key cities, the production rate of state enterprises (primarily large- and medium-sized enterprises) has declined since the second half of 1989, and continued its negative growth in 1990, which had the lowest growth of production of any year in the Seventh Five-Year Plan. Since last year, the gradual revival in production nationwide relied mainly on township enterprises and foreign-invested enterprises. While industry nationwide is beginning to come out of its slump, large- and medium-sized state enterprises are still in a slump. Second, enterprises' economic efficiency continues to slide. In 1990, not only did the losses of state industrial enterprises not slow down, they grew more severe daily. A survey of over 10,000 state industrial enterprises showed that one-third had incurred losses, and that the size of their losses was that of the previous year. The losses of deficit enterprises eroded enterprises' total earned profits by over 30 percent, causing a large decline in total profits. Currently, some enterprises can no longer pay their debts, and some have stopped production partially or totally, because their losses are so severe. Third, indicators of enterprises' overall economic efficiency have greatly declined.

#### II.

There are many causes of the difficult situation faced by large- and medium-sized state enterprises today. There is the impact of new contradictions that appeared during improvement and rectification in the past few years, and there is also the impact of some deep contradictions that have accumulated over many years. At present, the primary problems sapping the vigor of large- and medium-sized state enterprises are:

First, enterprise reform policy is unstable. The contract management responsibility system, and the plant manager responsibility system and the enterprise internal economic responsibility system with which it is intimately linked is a closely integrated responsibility system. While upholding

the public ownership system, this reform effectively resolved the issue of appropriately separating the two rights and considering the interests of all three. Enterprises began having the managerial mechanism of mutual stimulation and restraint. The Central Committee repeatedly stressed that this major policy, which involved the overall situation, should be continued, yet in actuality various groups condemned it. Subsequently, no matter what action enterprises took, everyone felt uncertain. Thus enterprises were in an unstable state, which influenced enterprise employees' positive feelings toward production.

Second, it is difficult to establish management autonomy for enterprises. In the 10 years of reform, a series of policies and measures to expand enterprise autonomy and invigorate enterprises has emerged from the Central Committee and gone down to the local level. The promulgation of the "Enterprise Law" has put enterprise work on a legal footing and has clearly defined enterprise autonomy. However, the problem is actually not that these laws, regulations, and policies are difficult to carry out, but that governments and departments at various levels have rescinded or blocked them. Various things have constrained state enterprises in areas such as production planning, goods and materials, product marketing, capital, labor wages, technological transformation, and even internal structures and set-ups, and thus management autonomy cannot develop fully.

Third, large- and medium-sized state enterprises are directed and tasked with serious responsibilities, but product pricing policies do not make sense. Large- and medium-sized state enterprises bear the primary burden for guided production plans. The state's double-tightening policy and the substantial contraction in the scale of capital construction investment has had a great impact on large- and medium-sized state enterprises' demand for investment-type products. Steel, cement, machinery, and trucks that previously were in scarce supply face a serious lag in demand and substantial increases in inventories. This is forcing some enterprises to cut or halt production; even such industries as metallurgy, nonferrous metals, chemicals, and electric motors face blockages and slowdowns. At the same time, state control of guided product pricing is strict, and the necessary amounts of raw materials cannot be supplied. This has created a pattern of "losses" for large- and medium-sized state enterprises, who have high-priced inputs and low-priced outputs: the more guided the planning, the greater the loss. The large coal and petroleum industries are important pillars of the entire national economy. Price and value are seriously at odds under the existing pricing policy. Thus talk of increasing a reserve strength for development is inappropriate, for it is hard to maintain even simple reproduction of existing mines and oil fields. This is one important reason for the slide in economic efficiency in the past few years.

Fourth, large- and medium-sized state enterprises bear a very heavy burden for tax and fees, and many place claims on them. In recent years, there have been many shifts in enterprises' economic efficiency through taxes, fees, capital, interest, and various social costs. According to a State

Council survey of 14 provinces and cities, enterprises give money to the state in the form of more than 44 various taxes, fees, capital, and bonds. A sample survey by the China Industrial Economics Association, which surveyed 193 large- and medium-sized state enterprises in Beijing, Tianjin, and Shanghai, found that the enterprises hand over 81.6 percent of their net income to various levels of government in the form of taxes, profits, fees, capital, and bonds; they hand over 10.2 percent to pay back special loans, and retain only 8.2 percent. These actual retained profits still do not include various miscellaneous costs, resource collections, fee collections, and fines. The increasingly heavy burden on large- and medium-sized state enterprises and the sharp reduction in enterprises' retained profits has weakened enterprises' ability to readjust their product structure on their own.

Fifth, the equipment and technology of large- and medium-sized state enterprises is out-dated, and their reserve strength for development is inadequate. This is especially severe in traditional industries and in the old industrial base. Of 941 large- and medium-sized state enterprises in Liaoning, 604 were built in the 1950's. Except for 38 that have undergone comprehensive transformation, the rest are still at their original technological levels even today. Equipment in important industries, like metallurgy, machine-building, petrochemical, and construction materials, still is at a state where "five generations of equipment are together under one roof." Over 60 percent of electro-mechanical products nationwide is at the technological level of the 1960's. Over 20 percent of the equipment in state enterprises has been in extended service. A shortage of capital is the most outstanding contradiction that has an impact on enterprises' technological progress and transformation. First, enterprises have too little depreciation capital to use for transformation. On the one hand, the depreciation rate of China's state enterprises is too low, and on the other there is a unitary method of planning depreciation. No accounting system for planning depreciation during inflationary periods has been established. According to calculations, in 1988 the weighted value of state enterprises' fixed assets was about 1.6 times their original value; for some old enterprises, this rate was higher. Next, the burden on state enterprises in the past few years has been too heavy, enterprises' retained profits have declined substantially, and their investment capacity has been seriously inadequate. Finally, state enterprises' devote only about 0.5 percent of their expenses to planned technological development, too little to spur on technological progress or self-adjustment of the product mix.

Sixth, large- and medium-sized state enterprises have seriously inadequate circulating funds, and their debt burden is becoming heavier. Currently, the contradiction between large- and medium-sized state enterprises' circulating funds and their suitability to production growth is becoming more serious daily. According to statistics, the proportion of circulating funds nationwide held by state industrial enterprises dropped from 65.7 percent in 1978 to 25.6 percent in 1988. At the same time, loans for enterprise circulating funds increased 417 percent, or an average annual progressive increase of 17.8 percent. State

enterprises' depreciation levels and expansion expenses are low, and the circulating funds held by enterprises are seriously inadequate. The result is that, on the one hand, enterprises rely increasingly on bank loans to expand production, renovation, and transformation. Also, changes in the state's financial policy will be a major blow to the management of enterprise production. The tight money markets in 1985 and 1988 caused large declines the following years, which proves this point. On the other hand, as interest rates on bank loans edge upward, the interest rates on enterprise loans rise sharply, and enterprises' loan burden becomes heavier. According to statistics from Guangdong, Henan, and Hunan, in 1989 enterprises' interest expenditures equalled 80 percent of their realized profits.

Seventh, the state has different policies for enterprises under different ownership systems. This means that state enterprises lack fair competitive conditions when compared with collective, township, and other types of enterprises. In the past few years, the overall influence of state enterprises has declined. Collective, township, and other types of enterprises have been a new force that has come to the fore. Production has expanded rapidly and has been connected primarily with favorable policies granted by the state. According to 1989 statistics, the sales tax rates for products from collective, township, and other types of industrial enterprises were 5.3 percent, 5 percent, and 4.5 percent respectively. The profits and taxes they turned over to higher levels accounted for 29.3 percent, 25.7 percent, and 31.2 percent respectively of their earned profits, and they had depreciation rates of 6.4 percent, 6.8 percent, and 6.4 percent. Their nominal retained profits equalled 19.2 percent, 20.9 percent, and 20 percent respectively of their real profits and taxes. However, in the same period these respective figures for state enterprises were 9.3 percent, 49.6 percent, 4.3 percent, and 17.4 percent, which is a dramatic contrast. This is an important reason why state enterprises clearly do not have the capacity for self-development that enterprises under other ownership systems have.

Eighth, the management of some state enterprises is poor; their ideological and political work and managerial foundation is weak; their regulatory systems are not sound; their consumption of materials has increased; and their product quality has declined. Some state enterprises do not have solid cost accounting: not only are the amount of losses on the books (open losses) increasing considerably, but the amount of losses and damages off the books (hidden losses) has reached a serious level. In addition, the egalitarian "big pot" has reappeared in some enterprises, seriously dampening the production initiative of cadres and employees. (to be continued)

#### **Liu Suinian Views Material System Reform**

91CE0591A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 91 pp 19-24

[Article by Liu Suinian (2692 7151 1628), Minister of the PRC State Council Ministry of Materials—Responsible editor: Zhong Cun (1813 1317): "On China's Material System Reform"]

[Text] The "CPC Central Committee Proposal for the 10-Year Program of National Economic and Social Development and the Eighth Five-Year Plan," which was adopted by the Seventh Plenary Session of the 13th CPC Central Committee, clearly points out that the accomplishment of China's second strategic modernization objective must be based on a summary of our experience in reform and opening up to the outside world in the 1980's and the need to develop our productive forces, so that our reform can be deepened steadily and our opening up to the outside world can continue to be expanded. As material system reform is a key component of our overall economic reform, it should be further deepened in the 1990's in line with the needs of a planned commodity economy.

#### **I. Successes Achieved in Material System Reform in the 1980's**

The Third Plenary Session of the 11th CPC Central Committee first began to break free theoretically from the conventional view that the means of production (capital goods) were not commodities, by establishing the new concept that capital goods are commodities that must be allowed to circulate on markets. Moreover, it cleared away the idea of "emphasizing production over circulation," by gradually establishing the concept that large-scale socialized production requires large-scale circulation. The Third Plenary Session of the 12th CPC Central Committee then drew the scientific inference that China's economy is a planned commodity economy based on public ownership, and proposed the establishment of a capital goods market as a key task. This provided the correct theoretical basis for material system reform. As these theoretical breakthroughs and pioneering were bound to bring practical changes and developments, practice brought reform of ownership relations and economic operating forces.

Ownership relations reform included adjusting our ownership structure and invigorating state-owned material circulation enterprises. By adjusting our ownership structure and changing our material circulation from a single channel to diversified channels, we were able to break away from the circulation of key capital goods being through centralized state distribution and allocation. In addition to state-owned material circulation enterprises, supply and marketing agencies in our industrial sector and industrial enterprises also began to take part in market circulation, and collective and individual management also developed to a certain extent. In invigorating state-owned material circulation enterprises, we put into effect the contract management responsibility system, which was aimed at severing government administration from enterprise management, in order to achieve separation of powers. Since 1990, over 90 percent of our material circulation enterprises have been practicing the contract system. In addition to contracting, we have also conducted valuable explorations in the area of joint, shareholding, and leased management. These reforms have provided the motivation to develop market competition based on commodity economy laws, as well as playing a key role in invigorating material circulation enterprises and arousing

the initiative of our vast numbers of cadres, staff members, and workers on the material circulation front.

Economic operating forces reform included the following very broad areas: 1) We broke free from our highly centralized material management system, by gradually reducing the variety and amount of material distribution through directive plans. The variety of materials subject to centralized state distribution had dropped from 256 in 1980 to 72 by 1990, and the percentage of domestic production subject to centralized state material distribution has also dropped clearly, i.e., from 57.9 percent in 1980 to 42 percent by 1990 for coal, and from 73.4 percent to 42.5 percent for rolled steel. In line with the decrease in directive planning, the amount of materials subject to guided planning and market regulation has increased sharply. In 1990, the amount of rolled steel controlled by steel mills throughout China continued to increase, with the state actually distributing only 17.12 million of the 51.2 million tons of national output. 2) We carried out capital goods price reform, by switching from a planned unitary to a dual-track pricing system. In order to deal with the new problems caused by dual-track pricing after 1985, we widely popularized in over 90 large- and medium-sized cities the method originated in Shijiazhuang of merging material prices within and outside of the state plan, and the 16 varieties covered by this method account for 60 percent of all planned materials supply transfer in these cities. 3) We established capital goods markets of various forms and sizes. By 1990, China had over 180 rolled steel markets, over 400 commodity trade centers, over 800 capital goods service companies, and 42,000 commodity management companies, markets, supply centers, and retail departments, on which capital goods markets over 40 percent of the key goods and materials needed by production and construction units were then purchased. 4) We evolved many flexible and diversified forms of service management. By 1990, 72.3 percent of all materials bought by material circulation enterprises throughout China were outside of the state plan, the business turnover of commodities trade centers had reached 29 billion yuan, 89.92 billion yuan of materials were being handled cooperatively, forms, such as barter, offset trade, and compensation trade, had become the key means of capital goods circulation, and management forms, such as "complete supply through contract," "verified supply based on demand," and "three fixed and one delivery" (fixed site, time, and quantity, and door-step delivery), were also emerging as required. These economic operating forces reforms played a historic role in invigorating and expanding our circulation and thus, in speeding up China's economic development. As time goes by, this is going to become an even greater focus of attention.

The turning point of our material system reform in the 1980's was the "Plan To Deepen Material System Reform," which was approved by the State Council in April 1988. After the Third Plenary Session of the 13th CPC Central Committee in September 1988, we entered the new phase of improvement, rectification, and deepening of reform. Based on the demands of the CPC Central Committee and State Council, this phase of material

system reform was focused mainly on improvement and rectification, along with no pause in deepening of reform. This played a very positive role in stabilizing our economy, reestablishing order, and speeding up the improvement of our national economy. The most prominent features of this phase of material system reform were that, on one hand, our extreme national economic difficulties and glaring quantitative and structural conflicts had caused not only the most serious inflation since the beginning of reform, but also the most exceptional market slump since the founding of the PRC while, on the other, we had to do a good job of handling the relations between stability and development, as well as resolving the relations between improvement and rectification, and deepening of reform. Despite this, we still made many breakthroughs in material system reform.

In order to enhance state macroeconomic regulation and control over the material sector and deepen material system reform, we have reorganized by transferring the materials supply and marketing agencies of 12 of the 18 departments in charge of production to the Ministry of Materials, and have begun to operate under a new system of dual leadership by the Ministry of Materials and responsible departments, but focused on that by the Ministry of Materials. Twenty-three provinces, autonomous regions, and municipalities, as well as six planned-list cities, have also drawn up reorganization plans, which are being put into effect. In order to adapt to the new situation, the Ministry of Materials has begun to assume the responsibility entrusted to us by the State Council of overall planning for and management of all material circulation, by inventorying and reorganizing companies, establishing sound market laws and regulations, and developing material circulation trade management, and has made encouraging progress in establishing circulation order and speeding up market development. For instance, we have drawn up and published over 10 policy laws and regulations to do things such as enhance our management of rolled steel and nonferrous metal, and have proposed 10 policy measures to stimulate circulation. We have further improved our materials planning and management methods, by breaking down the materials formerly managed by various ministries into directive plan distribution materials, contract order materials, dovetailed production and demand materials, and free procurement and marketing materials. Of the directive plan distribution materials formerly managed by various central ministries, 93 have been changed to contract order materials, and 208 have been changed to dovetailed production and demand materials. This has enabled material circulation to better reflect the principle of combined central planning and market regulation. Moreover, in line with changes in the macroeconomic climate, we have taken various steps to develop resources, establish resource bases, vigorously promote sales, and establish marketing bases, and have done a lot of hard work in the area of material reproduction utilization, comprehensive utilization, and economic utilization, which has speeded up the industrialization of circulation. We have also conducted many valuable explorations in the area of promoting circulation socialization,

rationalization, and modernization. For instance, we have developed complete materials delivery, popularized containerized and bulk cement transportation, and conducted reform pilot projects to stabilize procurement and marketing relations.

In our material system reform throughout the 1980's, which was based on planned management and overall balance, all the way from our theoretical breaking away from the conventional view that capital goods were not commodities, and our beginning to devolve real authority to lower administrative levels to stimulate circulation, through proposing a large-scale production and circulation ideology, and striving to establish capital goods markets, to assuming the responsibility for overall planning for and management of all material circulation, and promoting the socialization, rationalization, modernization, and industrialization of material circulation, our orientation has been correct, our explorations have been positive, and our successes are obvious. Material circulation enterprises have been invigorated to a certain extent, capital goods markets have begun to take shape, material circulation has become brisker, and state organization, management, regulation, and control of material circulation is being enhanced steadily. All of this has speeded up our establishment of a new planned commodity economy system, and expedited our overall national economic development in the 1980's.

## II. Problems Facing Material System Reform in the 1990's

While our material system reform in the 1980's was a good beginning, which provided us with valuable experience for the 1990's, it did not completely resolve many old problems, while causing quite a few new ones. In the three areas of enterprise invigoration, market establishment, and macroeconomic regulation and control, problems in the coexistence of the old and new systems and friction between their operating forces still exist.

As to enterprise invigoration, while enterprises, including material circulation ones, are directly responsible for developing the productive forces, and enterprise invigoration is a key link in overall economic reform, material circulation enterprises, especially large ones, have certainly not been genuinely invigorated. Their management level is low, their structures are imbalanced, their technology and equipment are out of date, their economic efficiency is very poor, and they lack growth stamina and competitive might. As to bringing their function as the key channel of material circulation into full play, their marketing and supply networks are too narrow, they have too small a share of the market, and their potential to improve service and raise efficiency is far from having been brought into proper play.

As to market establishment, while the amount of materials on markets and material circulation channels have increased somewhat, and forms of exchange and capital goods prices are slightly more flexible, things, such as market signals, competition, organization, regulation and control, and order are still very irrational. For instance, dual capital goods prices still exist, planned prices are both

increasing and chaotic, and there are now over 10 different planned prices for rolled steel alone, which make it very hard for pricing to play its proper guiding role in capital goods circulation and disposition. Moreover, our uniquely fragmented system and carved up and closed off structure have not been basically changed, our engineering industry alone has 39 departments divided into six management levels, and the phenomena of decentralized material resources, overstocking, and poor material circulation are quite prevalent, which have severely hampered the evolution of centralized socialist markets.

As to the enhancement of macroeconomic regulation and control, while establishing a macroeconomic regulation and control system that uses mostly indirect control is as important as invigorating enterprises and developing markets, and even more important as far as material circulation is concerned, because deviating from material balance makes it impossible to maintain overall financial, credit, and foreign exchange balance, it is precisely in this area that administrative methods, means, and organization are mostly still relied on. In recent years, enforcement of directive material distribution plans has become increasingly poor, the phenomenon of delivering inferior goods that are plentiful while keeping superior ones that are in short supply has grown in intensity, and the conflicts of ordering and delivery shortages have become increasingly glaring. While the causes of this problem are diverse, the fundamental one is that directive planning has not been truly put on the basis of the laws of value.

I think that the major causes of these problems are as follows:

1. As to the basic theory of material system reform, in addition to the need for general theories, such as a public ownership basis, an orientation of distribution according to work, and a combination of economic planning with market regulation, we also need at least the following specific theories: A) capital goods are commodities, which must be exchanged on markets; B) production and circulation are a unity of opposites in which, while production generally determines circulation, circulation also determines production under particular conditions; C) circulation must be socialized, modernized, and industrialized, and the economic development of circulation industries must still be speeded up even after it reaches a given stage. As we made breakthroughs or developments in these first two theoretical fields in the 1980's, but certainly lagged behind in the last one, material system reform did not and was unable to make real advances based on the needs for industrializing circulation and speeding up the development of circulation industries, nor were we able to take the initiative in serving overall national economic development as did agriculture and industry, but were always in a position of serving production and construction passively. A serious consequence of this is that circulation has become a glaring weak link and backward sector in our national economic development. For instance, the technology and equipment levels of China's circulation sector are far more outdated than those of our industrial production sector, and are even more outdated in relation to advanced world levels.

2. As to material system reform objectives, while our progressive orientation and overall needs are clear, too much theoretical arbitrariness and flexibility exists toward the need for a "planned commodity economy" or the principle of "combining economic planning with market regulation." Some favoring "planned" and "economic planning," with others leaning toward "commodity economy" and "market regulation," makes our particular objectives even less quantitative and operable in practice. Material system reform is often without a course of action when specific problems are encountered. With such ambiguous and vague major objectives, reform cannot be genuinely carried out.

3. As to material system reform methods, the problem is even more serious, the key being the lack of overall and effective strategy and tactics. Our reform experience has proved that even though our general orientation and particular objectives are clear, unless we can find ways, measures, and methods to achieve these objectives, reform will either remain merely talk, or possibly deviate from a consistent objective. For instance, as to developing capital goods markets subject to planned guidance, it is only their establishment but not their development that is emphasized. Even when their development is emphasized, it is only organization, leadership, and regulation and control that are emphasized, instead of input of funds, equipment, technology, and highly skilled personnel. How could flourishing and mature capital goods markets be established with such lack of grounds? Moreover, the establishment of an effective and free material circulation system that can be regulated and controlled cannot rely simply on certain individual measures, such as "devolving authority to lower administrative levels" or "invigorating enterprises" because, without socialization, modernization, and industrialization, it would be very hard to imagine the realization of any "effective, free, and able to be regulated and controlled" circulation objectives.

4. As to the material system reform climate, our experience in recent years has shown that a macroeconomic climate in which overall demand is roughly balanced with overall supply, is of extreme importance to smooth and sound material system reform. When the economy was overheated, demand was too brisk, prices were skyrocketing, and order was in chaos, or when markets are in a slump, production is decreasing, and efficiency is declining, not only was and is it very hard to further deepen reform, but it was and is also very difficult to preserve even the reform that has already been achieved. The crux of the problem is that, on one hand, material system reform makes very high demands on the macroeconomic climate and, on the other, the material sector has a poor foundation to start with, is short on qualifications, and lacks the objective means to create a macroeconomic climate that is favorable to material system reform. For instance, while we need to promote material overall and structural balance, we have neither strict directive plan measures nor the necessary material regulation and control might, not to speak of the relevant foreign trade authority to promptly regulate the domestic market. It is often hard to carry out smooth and sound

material system reform because we lack the means to create a macroeconomic climate that is in line with our needs.

### III. Basic Thoughts on Deepening Material System Reform

Our material system reform objectives for the 1990's are to develop capital goods markets that are subject to planned guidance, and establish an effective and free material circulation system that can be regulated and controlled. In line with these objectives, having summed up our material system reform experience in the 1980's, and focused on the objective demands of realizing our secondary strategic objectives of speeding up circulation industrialization and national economic modernization, I think that material system reform in the 1990's must emphasize ways to resolve relations in the four areas of planning versus markets, major versus diversified channels, circulation socialization versus modernization, and administrative means versus economic and legal ones.

#### 1. Planning Versus Markets

Combining planning with market regulation is a principle that must be observed to deepen material system reform. In general, macroeconomic balance of the national economy must rely on planning, while microeconomic enterprise activity must rely on market forces. As to material system reform, I think that we should make efforts in the following three areas:

A) Helping to bring about a macroeconomic climate in which supply and demand are roughly balanced is a basic prerequisite for developing capital goods markets that are subject to planned guidance. As long as the economy is overheated or markets are in a slump, both planning and market regulation are impossible, not to speak of combining them. In previous years, when we tried setting up commodity trade centers and open rolled steel markets to promote free material circulation and achieve a more rational disposition of resources, we found ourselves with unchecked material circulation for a time because our macroeconomic climate was poor, our policy guidance was weak, and our laws and regulations were unsound. In recent years, when we carried out improvement, rectification, and enhanced control, symptoms of overcontrol appeared in certain areas. In 1990, in order to do all we could to stimulate circulation, the Ministry of Materials proposed 10 policies; in addition, local materials departments made new efforts to stimulate circulation. In the days ahead, in order to promote overall balance and a rational disposition of materials, the materials sector is going to make a joint effort with the parties concerned to do things, such as enhance market forecasts, vigorously expand production of materials that are in short supply, promptly organize imports, and draw up policies to encourage or restrain consumption.

B) In line with market supply and demand, we should gradually change much of our centralized distribution of products, such as automobiles, cement, coal, and industrial chemicals, and our planned distribution and allocation methods for materials under ministerial control, and

increase the variety of materials that are ordered by contract and dovetail production with demand. As the price differences for raw materials within and outside of the state plan, such as rolled steel and nonferrous metal, are no longer very big, and the prices of some varieties have even evened out, we should seize the time by using the method of combining "adjustment, deregulation, control, and management" to shrink the gap between prices within and outside of the state plan, using a combination of planned, guided, and market prices, and gradually making a transition to a unitary pricing system that conforms to the laws of value.

C) In order to improve our efficiency, optimize our structure, and stabilize relations between supply and demand, we should increase our volume and scope of fixed-site, rationed, but not fixed-price supply and demand. At present, over 5.3 million tons of rolled steel within the state plan are subject to fixed-site rationing. Fairly stable marketing relations have also been achieved for a number of materials outside of the state plan. In the future, we must use various means to guide enterprises to steadily expand and stabilize their procurement and marketing volume and scope. Large enterprises that have little fluctuation between supply and demand for special-purpose and staple materials, and fairly permanent cooperative relations, should sign contracts directly and establish long-range and stable production and demand relations. Material circulation enterprises should play active roles as go-betweens and bridge-builders, by providing multifunctional, multidirectional, and high-quality service, and develop long-range cooperation with production enterprises in order to establish stable resource and marketing bases. Based on this, they should reform their ordering methods, develop ordering through means of communications and futures trading, gradually reduce the scope of their nationally centralized ordering conferences, and explore more efficient and effective ways of dovetailing production with demand.

## 2. Major Versus Diversified Channels

Through material system reform in the 1980's, we have broken free from our single-channel circulation, and begun to evolve a diversified-channel circulation order focused on state-owned material circulation enterprises. Experience has proved that a major channel is necessary for stability, but diversified ones are essential to invigoration. We must deepen reform to further resolve the relations between our major and diversified material circulation channels.

State-owned material circulation enterprises, which have the advantages of a wealth of experience, sensitive information, and good reputations, are our major material circulation channel. They have to firmly control the wholesale link of material circulation, strive to become the major suppliers of the goods and materials needed by large- and medium-sized industrial enterprises and key construction projects, and do all they can to acquire the capability to handle materials, regulate supply and demand, fix prices, and stabilize markets. While China's material circulation system now has 42,000 operating network points, 12.77

billion yuan in circulating funds, and 240 billion yuan in annual sales turnover, it still has too little market share, at most 50-60 percent, generally only about 30 percent, and less than 20 percent in some places. Thus, invigorating operations, developing markets, increasing market share, and enhancing management strength are very urgent key tasks. In order to enable diversified channels to develop soundly, and based on enhanced management, collective and individual material circulation management units should be dealt with differently at varying times and in various places, by being allowed to expand their operations within set limits. In areas such as the formulation, enforcement, and supervision of policies, laws, and regulations, we must change the current situation in which our major circulation channel is dealt with strictly while supplementary channels are treated leniently, so as to enable all operating units to compete on equal terms.

In order to handle well the relations between our major and diversified circulation channels, the following specific channels should be used: 1) General material circulation and much material supply to small- and medium-sized enterprises should be handled by state-owned material circulation enterprises, which do it most efficiently. 2) The procurement and marketing of large enterprises and enterprise groups should be handled mostly by their own supply and marketing agencies. These enterprises generally need large amounts of raw materials for very specific purposes. As some of their products are intermediate ones of an enterprise group's final products, allowing them to procure and market on their own is also most efficient at certain times. 3) As long as fragmentary material needed for small commodity production by township and collective enterprises and residential needs cannot be covered by state-owned material circulation enterprises, collective and individual operators should handle it or be commissioned as state-owned enterprise marketing agents. 4) While the role of supply and marketing agencies in the departments in charge of production should be brought into play under set terms, it should be limited to certain special-purpose materials, mostly to supplement supply needs for its own enterprises. Of these four circulation channels, the key to developing and strengthening the first channel so that it conforms to the needs of circulation industrialization, is organization, management, and hard work by the material sector.

## 3. Circulation Socialization Versus Modernization

As it is necessary to promote the socialization and modernization of circulation to establish an effective and free material circulation system that can be regulated and controlled, I think that we must deal with the following problems: 1) Based on the principles of economic rationalization and social division of labor, we must further break free from our uniquely fragmented material circulation order. Moreover, premised on preserving a basically stable division of labor in sectors, such as materials, commerce, and foreign trade, and based on the respective tasks that they undertake, certain businesses should be encouraged and urged to make suitable mergers, so that their respective advantages can be used for joint operations. 2) We

must vigorously improve and continue to promote lateral alliances, develop diversified forms of joint management between material circulation enterprises and foreign trade, commercial, and production enterprises as well as financial and scientific research institutions, and evolve inherent economic ties of a rational division of labor, proper competition, supplementation of advantages, and consistent interests in all links of production, supply, and marketing, domestic and foreign trade, and management of the means of both production and subsistence. 3. We must speed up the replacement and technological upgrading of circulation facilities, and make extensive use of advanced, functional, and technical means and management methods in all links of the whole material circulation process, such as ordering and settling accounts, measuring and testing, manufacturing and packaging, loading and storage, and shipping and complete delivery. In addition to a certain amount of state support in this area, material circulation enterprises should make their own efforts to steadily enhance their self-accumulation and self-development capabilities. 4) We must take active steps to develop material manufacturing and complete delivery centers, in order to more rationally organize our material circulation. We must rationally plan and set up operating network points mostly in cities, and evolve a system of materials manufacturing and complete delivery networks in key cities, in order to achieve our aims of few links, short circulation process, timesaving, low cost, and high efficiency.

Circulation socialization and modernization must promote and motivate each other. Even though circulation modernization cannot be divorced from circulation socialization, the circulation socialization process ultimately depends on the level of circulation modernization. The key to circulation socialization, and to replacing our closed and decentralized circulation order with specialized and intensive circulation, is to use the most economical, convenient, and efficient forms. Thus, we must proceed with system reform and technological progress simultaneously and, as long as our system is temporarily hard to rationalize and our circulation is seriously outdated, we must make greater efforts in the area of upgrading our technology.

#### 4. Administrative Means Vs Economic and Legal Ones

While our material circulation management used to rely mainly on administrative means, but has been increasingly emphasizing and utilizing economic and legal ones since we began to reform and open up to the outside world, it has still not made the transition from mostly direct to mostly indirect control, and we have often been unable to utilize the various means already in practice. We must deal with the following three problems in the process of deepening reform: 1) We must avoid the tendencies to either renounce or abuse administrative means. Although administrative means are often indispensable as long as difficulties exist in using economic and legal ones effectively, our use of administrative means must be based on and coordinated as much as possible with economic and legal ones. 2) We must promptly draw up a series of management laws

and regulations to combat monopolization, outlaw illegal and improper methods of competition, preserve market order, protect legal operations, and safeguard normal competition. Once we have drawn up such laws and regulations, we must enhance our supervision and inspection, act in accordance with the law, resolve problems of legal validity, and take conscientious steps to include material circulation in our legal system. 3) We must make all economic means, such as pricing, credit, taxation, and exchange and interest rates more uniform and timely, and harmonize all interest relations. Regardless of how these three means are utilized, they must always help to stimulate and develop circulation. Only in this way can we promote the sound development of capital goods markets that are subject to planned guidance, and speed up our establishment of an efficient and free material circulation system that can be regulated and controlled.

## PROVINCIAL

### Liaoning's Anshan Attracts More Foreign Investors

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[Text] Beijing, July 1 (XINHUA)—Anshan City, in north-east China's Liaoning Province, signed 18 contracts involving 29 million U.S. dollars on the establishment of joint ventures with foreign businessmen in the first half of this year, according to today's PEOPLE'S DAILY.

At present, the number of foreign-funded enterprises in the city totals 82, with a total investment of 88 million U.S. dollars. This figure includes 14 foreign-funded enterprises set up in the first six months of this year, with a total investment of 20 million U.S. dollars, the paper reported.

In order to promote the local economy and attract more foreign investors, the city authorities have been paying special attention to improving the local investment environment.

A special zone for foreign investment has been set up, and infrastructure facilities improved.

### Beijing Economic Development Plan

SK0706112591 Beijing BEIJING RIBAO in Chinese  
5 May 91 p 3

["Excerpts" of report on implementation of Beijing Municipality's 1990 plan for national economic and social development and the draft 1991 plan for national economic and social development, delivered by Wang Jun, chairman of the Beijing Municipal Planning Commission, at the fourth session of the ninth municipal People's Congress on 17 April—place not given]

[Text] Fellow deputies:

Entrusted by the municipal government, I submit a report on implementation of Beijing Municipality's 1990 plan for national economic and social development and on the draft 1991 plan for national economic and social development to the session for examination and discussion.

### 1. Successful Fulfillment of the 1990 Plan

In 1990, the municipal government conscientiously implemented the decision on further improving the economic environment, rectifying the economic order, and deepening reforms, as adopted at the fifth plenary session of the 13th CPC Central Committee; united with the people of various nationalities across the municipality; bridged various difficulties in the course of advance; maintained and developed the stable political and social situation; made comparatively noticeable achievements in the preceding stage of economic improvement and rectification; further deepened the reform work in various spheres; and ensured a good implementation of the 1990 plan for national economic and social development and the fulfillment of various major targets. The major fighting goals defined in the Seventh Five-Year Plan were satisfactorily realized. The municipality's economic situation was good and continuously developed in a good way. In 1990, the GNP reached 49.6 billion yuan, an increase of 6.3 percent over the previous year and an annual average increase of 8.4 percent; the total agricultural and industrial output value was 59 billion yuan, an increase of 7.3 percent over 1989 and a yearly average increase of 11 percent, both surpassing the targets as defined in the Seventh Five-Year Plan.

Agriculture's role as the foundation of the national economy was further strengthened, and the rural economic situation has got better and better. A sustained and stable agricultural development situation was maintained. Grain production was upgraded to a new stage and totaled 2.646 million tons, overfulfilling the target of the Seventh Five-Year Plan by 23 percent. The per mu yield of grain reached 596.5 kg, an increase of 28.4 percent over 1985. The municipality set records in both the total grain output and the per unit area yield of grain. The output of foodstuffs increased steadily. The targets for the production of marketable vegetables, hogs, fresh eggs, and freshwater fish, and the fishing volume, as fixed in the 1990 plan and the Seventh Five-Year Plan, were overfulfilled; and their production increased in varying degrees. Rapid headway was made in town and township industries. The total output value realized by town and township enterprises in 1990 reached 15.48 billion yuan, showing an increase of 21.5 percent over 1989 and quadrupling the figure in five years. Thirty-seven poverty-stricken townships preliminarily realized their poverty elimination targets.

Thanks to the arduous efforts made by the broad masses of staff and workers, the industrial front maintained an appropriate production growth rate. Last year, the municipal government readjusted the retrenchment degrees and worked out 38 measures for eliminating the difficulties in industrial production in a timely manner. Last April, the municipality changed the situation where industrial production had continued to drop for six consecutive months, and ensured a rise in industrial production ahead of other places throughout the country by one month. The total industrial output value in 1990 (excluding that realized by the industries at or below the village level) reached 46.98 billion yuan, showing an increase of 5.4 percent over the previous year and overfulfilling the targets as fixed in the

1990 plan and the Seventh Five-Year Plan. The targets for production of the majority of the products covered in the state mandatory plan were fulfilled or overfulfilled. Affected by the control over the scale of investment in fixed assets, unready marketing situation, and the situation that the product mix was not reasonable enough, the production of the products covered in the guidance planning was not ideal enough.

Markets were stable and brisk, commodities were sufficiently supplied, goods prices were reduced by a big margin after a rise. The municipality conscientiously implemented the policy of "opening the city gate and not practicing local protectionism," and tried every possible means to keep the markets of the capital stable and brisk. The volume of the retail sales of commodities was 30.77 billion yuan, registering an increase of 15.3 percent over 1989 and overfulfilling the targets as defined in the 1990 plan and the Seventh Five-Year Plan. The municipality's retail sale price index rose by 4.1 percent, the increase rate was reduced by 14.4 percentage points from the previous year, and the municipality experienced the lowest price hikes since 1985. At the time of strictly controlling the goods prices, the municipality smoothly carried out the state price readjustment project and solved the problems where the prices of some commodities were conspicuously unreasonable.

The pace of opening to the outside world was accelerated. Exports registered a fairly high growth rate. During the year, we earned \$1.32 billion from exports, up 13.9 percent from the preceding year, exceeding the annual target and the target set forth in the Seventh Five-Year Plan, and increasing by 1.1 times over 1985. The scope of foreign capital utilization was expanded continuously. We approved establishment of 241 Chinese-foreign joint ventures and cooperative enterprises and exclusively foreign-funded enterprises during the year, an increase of 56 over the preceding year, and the total number of such enterprises approved in the five years reached 710. We used \$400 million in foreign capital during the year. The actual amount of foreign capital used in the Seventh Five-Year Plan period exceeded the target by more than 1 time. Tourism was restored to nearly the level of 1988. We received 1.001 million tourists who entered the country through Beijing, and earned 3.15 billion yuan in foreign exchange from tourism, up 79.1 percent from the preceding year.

The financial revenue showed steady growth, and great progress was achieved in reducing financial subsidies. The financial revenue totaled 7.4 billion yuan during the year, up 4.2 percent from the preceding year. The accumulated revenue over the five years was 33.7 billion yuan, 3.7 billion yuan more than the target of the Seventh Five-Year Plan. Financial subsidies of the year totaled 4.48 billion yuan, which was lower than the actual amount of the preceding year. In this way, we checked the many years of large increases in financial subsidies.

Banking and insurance services developed in a healthy manner. While making efforts to control the total amount of bank credit, we adjusted the degree of retrenchment to

ensure rational needs in production and construction fairly successfully. In 1990, the savings deposits of the municipality increased by 17.67 billion yuan, loans increased by 8.55 billion yuan, and the income from insurance business reached 530 million yuan, exceeding the target.

The investment in fixed assets increased on the premise that the total amount was controlled and key construction projects guaranteed. Local investment in fixed assets (excluding houses for sale by individuals) totaled 9.29 billion yuan, up 16.4 percent from the preceding year. Of the total, 8.15 billion yuan was invested in construction, the scale of which had been assessed by the state. Investment in key capital construction and technical transformation was increased. Throughout the municipality, 10,812 million square meters of houses, or 37.7 percent of the houses under construction, were completed, of which 5,509 million square meters were residential houses. A total of 566,000 square meters of residential houses for teachers and administrative personnel of primary and middle schools were completed, surpassing the task of building 500,000 square meters of houses in five years. The project to renovate shabby and dangerous urban houses developed on a large scale. Successive renovation of 20 areas of the first group of 37 areas designated by the municipal government has already begun. In the Seventh Five-Year Plan period, local investment in fixed assets totaled 32.86 billion yuan, exceeding the target by a fairly large margin. Despite rises in the prices of raw materials and labor service, efforts were made to expand the construction of urban infrastructural, educational, and medical facilities, and the projects to enhance sustained industrial development in line with our financial capacity.

Notable results were achieved in the construction of urban infrastructural facilities. Key urban water supply projects were all completed. They were the project to divert water from the east side of the municipality to the west side, the third series of work for the first-phase construction of the No. 9 Water Works, the renovation and expansion of the Changxindian Water Works, and the project to improve the water quality of the No. 4 Water Works. Consumers of natural gas and pipeline coal gas increased by 66,000, the areas equipped with central heating supply systems increased by 1.504 million square meters, and the areas supplied with heat increased by 4.56 million square meters. New progress was made in road construction. Construction of 15 roads totaling 65 km, including the Beijing section of the Beijing-Tianjin-Tanggu Expressway, and the road linking the third belt road to the fourth belt road, was completed. The construction included seven large-scale flyovers, six railway and highway flyovers, and 12 highway flyovers.

During the year, we opened six new bus and trolley lines and extended 10, for a total of 94.6 km in length. The volume of passenger transport reached 3.35 billion persons, up 9.2 percent over the previous year. The situation in which people found it very difficult to take a bus was alleviated as compared with previous years. The volume of passenger transport by highways and civil aviation and the total business volume of post and telecommunications services increased by a fairly big margin over the preceding

year. The total installed telephone capacity in urban areas reached 523,000 lines, an increase of 930,000 lines over the preceding year.

The quality of the urban environment improved continuously. Major progress was achieved in making the city green and beautifying the environment. In the urban areas, 2.65 million trees were planted, and in the suburban areas, 16.39 million trees were planted on farmlands, around houses, and along rivers, roads, and ditches in villages and towns. The greening coverage in the urban areas reached 28 percent and the average amount of wooded area per capita was 1.14 square meters. The tree coverage in suburban areas reached 28.2 percent. Environmental protection work was strengthened continuously. The municipal government fulfilled 10 practical things which it did for the sake of the people. During the year, 7,950 pollution sources were treated. In the near suburban areas, 39 communities attained the target for controlling smoke and dust, 57 plants, and workshops where pollution was fairly serious were improved or moved away. A total of 36.95 million square meters of roads throughout the municipality were always kept clean, up 4.79 million square meters over the previous year. During the year, 3.84 million tons of trash and 2.10 million tons of excrement and urine were disposed of.

New progress was achieved continuously in educational, scientific, and technological undertakings. During the year, all sorts of schools basically fulfilled their enrollment plans. During the peak period of admitting primary school students, the two-shift system was not seen in schools. Municipal schools of various descriptions built 351,000 square meters of school buildings. During the Seventh Five-Year Plan period, we trained a total of nearly 400,000 specialized high- and middle-grade personnel, surpassing the planned target by 163,000 persons. The comprehensive scientific and technological strength was further strengthened. During the year, 3,763 scientific and technological findings were achieved, 3,076 of which were popularized and applied in the course of national economic development, and noticeable economic efficiency and social benefit were achieved.

New progress was made in all social undertakings, including cultural, public health, and sports undertakings.

In cultural undertakings, we continued to implement the principle of "grasping antipornographic work with one hand while undertaking the task of invigoration with the other hand," and witnessed a situation of vigorous development. An array of outstanding work emerged. The mass cultural activities were rich and colorful and the building of cultural facilities were further strengthened. The construction of the Xicheng District cultural hall was being vigorously carried out. The first-phase construction project of the Beijing Municipal television station was commissioned. We built 73 new television relay stations and six satellite ground receiving stations. The whole municipality's radio and television coverage rate reached 98 percent. Public health and healthcare work continued to develop. The incidence of infectious diseases dropped to 506 per hundred thousand. A number of medical facilities,

including Jishuitan hospital, Huimin hospital, and Daxing hospital, were built. The whole municipality added 3,400 new hospital beds, thus making the total number of hospital beds 59,000, greatly exceeding the Seventh Five-Year Plan period. Sports undertakings were vigorously developed and mass sports activities were very brisk. Our municipal athletes won a total of 225 medals in major domestic and international competitions, of which 30 medals were won in the Asian Games. This won great honor for the motherland and the capital.

The living standards of urban and rural residents improved continuously. In 1990, we readjusted the wages of workers in line with the state's unified plan. The annual average wages of workers across the municipality increased 14.7 percent over the previous year. If the rise in the cost of living of workers was deducted, the increase was 8.8 percent. The average per-capita net income of peasants rose 5.4 percent. The income levels of urban and rural residents all surpassed the Seventh Five-Year Plan. The total urban and rural savings deposits increased 6.46 billion yuan over the preceding year. The average per-capita living space of residents in cities and towns was 7.7 square meters, up 1.5 square meters over 1985; and the average per capita living space of residents in rural areas reached 20.6 square meters. The health level of the people improved noticeably. The average life expectancy of the people was 70.9 years old for males and 74.2 years old for females.

The population growth was somewhat brought under control, the family planning work registered greater achievements, and the census work was completed smoothly. By the end of 1990, the population of permanent households reached 10.322 million, a 111,000 persons increase over 1989. The birth rate during the year was 12.43 per thousand. By the end of 1990, the population of permanent households surpassed the figure scored during the Seventh Five-Year Plan period by 120,000 persons.

We upheld the program of improving the economic environment and rectifying economic order and continued to deepen the reform drive. On the premise of upholding the program of improving the environment and rectifying order and the control over total supply and demand, the municipal people's government adequately readjusted the size of the curtailment in a timely manner and promoted the sustained development of the national economy. In making arrangements for investment in fixed assets, it strictly examined and approved the newly opened projects, brought general projects under strict control, and refused to approve new projects for building tourist hotels and official buildings. It also adequately broadened the scope of key technical renovations, increased investment in urgent projects, and further readjusted the investment structure. The volume of work completed with the investments in fixed assets showed a slight decrease over 1988. In handling consumption funds, the municipality enhanced the management over incomes outside of wages. The increased scale of per worker wages showed a 5

percentage point decrease over 1988. In handling commodity prices, it further enhanced management over commodity prices and brought retail prices under strict control. The increase of prices showed a decrease over the figures scored in the past two years. In conducting financial and banking affairs, it not only upheld the principle of "double tightening" but also basically dealt with the reasonable needs of funds for readjusting the structure and developing the economy. In consolidating the order of the circulation field, it basically completed the tasks of clearing up the corporations and companies. The number of corporations and companies which had been closed or merged accounted for 30 percent in the total.

While vigorously improving the economic environment and rectifying the economic order, the municipal people's government unswervingly and continuously deepened or improved the reform drive in various circles. In rural areas, it consolidated and improved various responsibility systems linked to output by regarding the adequate output scale as the main and developed cooperative economic organizations. It also signed the second-round of contracts with the industrial and commercial enterprises and upheld the principle of promoting reform in the enterprises' internal systems of personnel affairs, labor affairs, and wages, by regarding the optimization of labor organizations as an emphasis. It took a great step in improving the housing system and totally signed the second-round contracts of scientific and technical responsibility systems with the the scientific research academies and institutes. It also popularized among middle and primary schools across the city the reform conducted in the leading and managerial systems of education and in the internal management systems of schools, and carried out the pilot work of reform in the teachers' college and the Beijing engineering university. It defined the methods of enforcing the new and five-year period financial responsibility system, including "the classification of tax categories, the estimation of revenues and expenditures, and the enforcement of the system at every level." It also scored good results in the pilot work of enforcing the responsibility system in investments.

Over the past year, the municipality has also had many problems and difficulties, which include mainly the relatively prominent structural contradictions in the economy, the stagnant sales of some products, the slow economic cycle, and the failure to create a fundamental turn for the better in the backward situation of economic results. A large number of enterprises, particularly large and medium-sized enterprises have encountered difficulties in production and have not extricated themselves from a difficult position.

## 2. Opinions of Arrangements for the 1991 Draft Plan

The year of 1991 is the first stage where we are enforcing the "Eighth Five-Year Plan" and also is a crucial year of continuously improving the economic environment, rectifying the economic order, and deepening the reform drive. We must further emancipate our minds, vigorously do pioneering work, improve the economic work to a better extent this year, ensure the favorable development of

economic situation, and make greater progress in various undertakings. Meanwhile, we should make preparations in various fields for sponsoring the 27th World Olympiad in 2000.

The guiding ideologies for arranging the 1991 plan and the 1991 major tasks are as follow: We should conscientiously implement the guidelines of the seventh plenary session of the 13th CPC Central Committee; continuously persist in the principle of improving the economic environment, rectifying the economic order, and deepening reforms. On the premise of maintaining political and social stability, we should increase the weight of reforms. With the focus on upgrading the economic results and enlivening large and medium-sized enterprises, we should concentrate energy on developing the national economy. We should strive to speed up the structural readjustment, appropriately increase production, enliven the circulation sphere to increase the marketing volume, ensure that certain types of construction projects should be controlled and some should be developed, comprehensively upgrade economic results, and ensure a sustained, stable, and harmonious development of the economy.

The 1991 major targets for national economic and social development are arranged as follows:

The GNP is to reach 53.4 billion yuan, an increase of 4 percent over 1990.

The total agricultural output value is to reach 7.2 billion yuan, an increase of 4 percent.

The total industrial output value (including that realized by village-run industry) is to reach 83 billion yuan, an increase of 6 percent. Of this, that by the industrial departments subordinate to the municipality is to increase about 2 percent.

The investment in the fixed assets of localities is to be 6.9 billion yuan (including the portion assessed by the state), an increase of 19 percent over the figure designated at the beginning of last year.

The total volume of retail sales of commodities is to reach 34 billion yuan, an increase of 10 percent.

The index of the rises in market retail sale prices should be controlled within 10 percent.

The export trade volume is to surpass \$1.1 billion.

The utilization of foreign capital is to surpass \$350 million.

The number of tourists entering China through Beijing is to reach 1.1 million persons or to exceed 1.2 million persons.

Local revenues are to reach 7.7 billion yuan, an increase of 4 percent over 1990.

The scale of credits should be controlled according to the state-assigned targets, and the income from insurance business is to exceed 600 million yuan.

Institutions of higher learning subordinate to the municipality are to recruit 9,600 students; secondary specialized schools, 12,000 students; and technical schools, 10,000

students. The enrollment of vocational senior high schools is to range from 15,000 to 17,000 students. Colleges for adults are to recruit 9,300 students.

The urban and rural hospitals are to increase the number of sickbeds by 1,500.

Urban districts are to plant 1 million trees; and 10 million trees should be planted by implementing the suburban farmland shelter belt construction program and the town and village afforestation program.

The smoke and dust control areas in the urban districts should completely fulfill their designated smoke and dust control targets, and the industrial fronts should ensure the fulfillment of the waste water processing target by 75 percent.

The wage bills, the number of staff and workers, and the number of people whose rural residence registration is changed to an urban one should be controlled within the state-fixed targets.

The population with registered permanent residence by year end should be controlled within 10.45 million people, the population birth rate should be controlled within 13.4 per thousand, and the net population increase must be less than 130,000.

#### A. Rural Economy

The general principles for guiding the rural economy in 1991 are to stabilize grain production, guarantee the production of foodstuffs, readjust the industrial product mix; and to ensure a sustained, stable, and coordinated development of grain, foodstuffs, and town and township industries. The draft plan arranges as follows: Grain output is to reach 2.4 million tons or to surpass the real output of last year. As arranged according to market demands, the output of foodstuffs should be, by and large, equal to or slightly more than the figure of last year. The growth rate of town and township industrial enterprises should be kept within about 15 percent.

Major measures are as follows:

a) Strictly control the use of farmland for nonagricultural purposes.

b) Continue to increase agricultural investment. According to the arrangements of the plan, the investment in agricultural capital construction increases by 5.2 percent over the figure set forth in last year's plan, and the agricultural-oriented funds and operational funds arranged by the municipal financial department increase by 8.6 percent over last year. All districts and counties should continue to allocate some money to strengthen agriculture and actively guide peasants to increase the investment and labor accumulation.

c) Do a better job in developing agriculture through the application of science and technology and the promotion of education.

d) Arrange well the supplies of the means of agricultural production. We should complete the renovation of four chemical fertilizer plants run by counties and strive to apply more farm manure.

e) Strive to conserve the water for agricultural use. This year, farmland to which water conservation measures are applied, such as sprinkling irrigation, pipeline water supply, or lined channels, should be increased by 400,000 mu.

f) Do a good job in the construction of agricultural infrastructural facilities and farm product processing facilities. The major projects are the good-quality farm product transfer post, the laboratory of the agrosience institute, the Dafa chicken slaughterhouse, the reconstruction of the Youanmen dairy product plant in a new place, and the extension of the southern and northern trunk channels in Yanqing County.

g) Township enterprises should conscientiously implement the principle of "opening wider to the outside world, conducting adjustment, raising efficiency, and facilitating development" and aiming at raising economic efficiency and giving priority to adjusting enterprise structure and product mix, conscientiously do a good job in technical transformation and development of new products, raise the quality and standing of their products, increase their accumulated funds, and enhance their capacity for further development.

#### B. Industrial Production

According to the draft plan, 13.16 billion kilowatt hours of electricity, 3.15 million tons of rolled steel, 125 kg of gold, 270,000 tons of ethylene, 87,000 tons of caustic soda, 1.03 million sets of tires, 2.48 million tons of cement, 93,000 tons of chemical fertilizer, 54,500 tons of chemical fiber, 415,000 pieces of yarn (74,300 tons), 88,000 motor vehicles, 118,000 lines of program-control switchboards, 20,000 video recorders and 580,000 color television sets should be produced.

We should conscientiously put improvement of product quality in a prominent place. The draft plan demands that the steady product quality improvement rate reach 95 percent or higher, the up-to-standard rate of the products spot checked by state- and municipal-level departments increase by two percentage points over last year, and 20 products reach the quality standards of the state, 100 products reach the quality standards of ministries, and 100 products reach the quality standards of the municipality.

We should expedite the adjustment of product mix. Production of the goods unsalable and stockpiled for a long period of time should be stopped resolutely. We should strive to develop the products "new in four aspects" and the new products with high additional value. We should strengthen the scientific research and development organs of enterprises. It is planned that 3,200 new products should be developed in the year. We should disseminate 20 new technology measures that help conserve energy resources and raw materials.

We should start construction of the projects designed to enhance industrial production capacity. Funds should be concentrated on a number of key capital construction and technical transformation projects that help maintain sustained industrial production. Above-norm projects planned to be completed this year include the chemical

industrial experimental plant's project to turn teschema-cherite into urea, and the tire plant's project of fiber bias-ply tires. Projects to be continued are the project of light vehicles of 50- Ling [6875] N series, the internal-combustion engine plant's project of 2.0-liter gasoline engines, and the domestic production of 300,000-kilowatt power generating units. Efforts should be made to start within this year the program-control switchboard project of the wire electric appliance plant, and the large-scale integrated circuit project of the Shoudu Iron and Steel Plant. Construction of the 115,000-ton ethylene project, which is a state key project for the Eighth Five-Year Plan period, should be accelerated so that it can be completed within the period. Preparations for the 66,000-ton polyester chipping project should be stepped up.

#### C. Commerce

The task for ensuring the stability and prosperity of the capital's markets is an important mission in the economic work this year. The commercial departments should actively do a good job in making arrangements for the purchase and sales of commodities and goods sources, closely cooperate with the foreign trade departments to mutually cope with markets both at home and abroad, and help enterprises develop production. Efforts should be made to enhance the cooperation between agriculture and commerce and to make good arrangements for the purchase and sales of nonstaple foodstuffs. We should continuously enforce the "policy" of opening the capital to all localities across the country and not indulge in local protectionism; vigorously organize the famous-trade-mark, special, fine-quality, and new products turned out by various localities across the country to be sold in the capital; and bring into full play the role of state-run commercial enterprises and supply and marketing cooperatives in being the main channels of commodity circulation.

We should continuously and vigorously develop the business networks and centers of commerce, food catering, service, and repair. The municipality plans to establish more than 5,000 such networks and centers. Efforts should be made to vigorously build large and medium-sized shopping centers, trade fairs, and storage facilities for grains and petroleum, such as the expansion of the north shopping branch of the Xidan department store; the construction of the wholesale and retail building of communications and electric appliances; the rebuilding of the vegetable market inside the Chaoyang gate; the construction of three medium-sized shopping centers in the towns of Shuangyushu, Dongdaqiao, and Madian; the construction of comprehensive business building sponsored by the storage and transportation company; the rebuilding of soybean workshops of the Longmen vinegar plant and the brewery No. 8; and the construction of a number of granaries and oil tanks, including the Daxing oil tank. We should vigorously make the first-phase preparation for the expansion of the Dongan department store and for the construction of the commercial service center at the Beijing railway station. In building trade fairs, we should have every district be mainly responsible for the construction,

plan to start the construction work of 32 projects, and strive to complete the operation of 18 projects.

#### D. Economic Relations With Foreign Countries, Trade, and Tourism

The foreign trade enterprises should suit to the state new foreign trade systems, vigorously improve their operation, and increase their exports. In line with the changes aroused by the demands of international markets, these departments should consolidate the export commodities mix; vigorously increase the exports of machinery and electric products; and realistically upgrade the quality and grade of export commodities and the rate of honoring export contracts. Efforts should be made to vigorously reduce their operation expenses and the cost of foreign exchanges. The municipality's total volume of purchasing export commodities accounts for more than 70 percent in the total. The municipality plans to maintain the 1990 level of using the foreign exchanges to conduct imports this year and to ensure the import of key products. Meanwhile, the municipality will assign some localities (enterprises) to use their own foreign exchanges to introduce outside advanced technologies and equipment.

We should actively broaden the utilization of foreign funds. The foreign loans will be mainly used for the first-phase renovation of signal equipment of local railways, for the second-phase construction of the water supply plant No.9, and for the construction of infrastructures in some urban areas. Efforts should be made to enforce the guideline of building large, medium-sized, and small projects simultaneously and of regarding the medium-sized and small projects as the main; to more actively develop the "three types joint-venture" enterprises; to emphatically open enterprises with high and new technologies and which can earn more foreign exchanges through exports; and to bring the nonproductive imports under strict control, particularly the duplicated imports and the imports of food service goods. The municipality plans to newly open more than 300 enterprises of "three types joint ventures."

We should further restore and develop tourist undertakings, strive to top the previous peak, and reach the target of earning \$700 million in this regard.

#### E. Investment in Fixed Assets

We should continuously enforce the principle of bringing the general supply and demands under control, readjusting the structure, and ensuring the key production. The scale of construction in the year should be controlled within the target assigned and approved by the state. The construction acreage of newly opened and restored projects across the municipality should be controlled under 22 million square meters (excluding the development of marketable houses). Of this acreage, that of newly opened projects will reach 9 million square meters and that of completely built ones will reach 10 million square meters.

In the scope of investment in fixed assets, we should give priority to arranging for the construction of urban infrastructural facilities, agricultural, educational, industrial, housing, and public security projects with an emphasis on

renovating dangerous houses and give overall consideration to needs in other aspects in accordance with financial capacity. Under the capital construction plan, we should give priority to arranging for projects to be completed this year and make proper arrangements for continual projects, and strictly control new projects, office buildings, auditoriums, and hotels as well as projects that do not meet the requirements of the industrial policy. The construction of office buildings, auditoriums, and hotels which were suspended in the past, must not be resumed without approval. In the investment in technological innovations, we should give priority to satisfying the needs of readjusting the production set-up and product mix with an emphasis in the arrangement for projects aiming at saving energy, reducing consumption, improving product quality, increasing new product variety, raising labor productivity, expanding exports to earn foreign exchange and the capacity to produce import substitutes, and strengthening production safety.

#### F. The Construction of Urban Infrastructural Facilities.

In urban construction, we should continue to attach prime importance to the construction of urban infrastructural facilities with an emphasis in solving the issues of drinking water, power and heating supply, and urban communications. The main projects arranged in the draft plan are: The second-phase water pipeline project of the No.9 water plant; the power station generating electricity with pumping water near the Ming Tombs and the No.3 thermo power plant; the gas project, the furnace transformation project of a coking plant, and the project to deal with emergencies of the hidden danger of gas pipelines of the Shoudu Iron and Steel Company; the Gaobeidian polluted water disposal plant; the "Xixiang" road project, the Fuxingmen-Xidan subway train section, the third-phase Beijing section of Beijing-Shijiazhuang highway, and the Tonghuang road project; and the expansion project of urban telephone network. We should step up our efforts to prepare for the pre-phase construction work of the Gaobeidian thermo power plant, the western Beijing passenger train station, and the environmental protection project built with World Bank loans. This year, we plan to supply gas to 750,000 households, build heat source projects in the eastern suburban areas, increase central heating areas by 1.5 million square meters, and add 100,000-telephone exchanges in the urban areas.

#### G. Finance and Banking.

In finance, we plan to increase revenues by 4 percent over last year and to basically maintain expenditures at last year's level. The financial subsidies should be reduced to within 4.45 billion yuan. We must open up new sources of income and reduce expenditures, strive to increase revenues, strictly control expenditures and realize a basic balance in revenues and expenditures.

In banking work, we should continue to implement the principle of "controlling the overall supply and demand, readjusting structures, regulating the banking market in a timely manner, and raising economic efficiency, guarantee priorities and invigorate the use of funds. We should conscientiously organize the work of clearing up defaults

and tapping potential, actively increase the variety of insurance programs, and raise the insurance service level.

#### H. Science, Technology, Education, Public Health, and Population.

In the science and technology sector, we should organize study activities and projects to tackle difficult problems focusing on strengthening the momentum in agriculture and industry, promoting economic development, doing a good job in building urban infrastructural facilities, and improving urban administration, strengthen intermediate experiments and the building of experimental bases, and rapidly turn scientific research findings into productive forces. We should grasp the popularization and application of a batch of scientific research projects that yield good returns and quick benefits, make strenuous efforts to promote development and research in advanced new-technology projects such as power, electronics, and optical fiber communications projects, and gradually industrialize them. It is necessary to step up our efforts to build industrial development experimental zones for new technology and further implement all preferential policies. In social sciences, we should focus the work on the study and popularization of the basic theories of Marxism, Leninism, and Mao Zedong Thought, and the integration of the planned economy and market regulation. Meanwhile, we should strengthen the study of applied science concerning economic trends. We will initiate the construction of the municipal Social Sciences Academy building this year.

We should continuously develop the education of various categories, enhance the elementary education, and vigorously develop vocational and technical education. Efforts should be made to further popularize the nine-year compulsory education, to adopt comprehensive measures to free junior middle schools from enforcing the two-shift teaching system, to vigorously upgrade the educational quality of general higher educational institutions, and to readjust the higher educational institutions to run the municipality and specialized schools in a planned manner and step by step. The secondary specialized schools run by the municipality should increase their key courses needed by the municipality and the number of their student enrollment. We should vigorously increase the scale of student enrollment among the skilled workers schools, reinforce the forces of teachers, and upgrade their educational quality. The vocational senior middle schools of urban areas should uphold the teaching orientation of regarding as the main the work of training talented personnel for the tertiary industry and should stabilize the scale of their student enrollment. The vocational schools of rural areas should actively broaden the scale of their student enrollment. In rural areas, we should popularize the "system" of training talented personnel who will engage in the job of developing green production and actively take up the pilot work of enforcing the system of training talented personnel for the secondary and tertiary industries. In conducting adult education, we should regard the on-the-job training as the main and improve the system of on-the-job training. Efforts should be made to continuously consolidate the achievements scored in the work of eliminating illiteracy and to vigorously improve

the educational facilities. Main construction projects in this regard include the building of the environmental beautification department of the Beijing engineering university, the laboratory buildings of the civil engineering college and the teachers' college, the building for foreign students of the economic college, the rebuilding work of middle and primary school houses, and the second-phase building operation of the radio-tv university.

The emphasis of hygiene and health care is to do a good job in conducting the prevention work and popularizing medical and public health undertakings in rural areas. We should adopt measures to bring under control the endemic and contagious diseases endangering the people's health. A good job should be continuously done in building medical facilities. The municipality has made arrangements for the key construction projects in the hospitals of Tongren, Youyi, Anding, and of treating tumors and strives to start the construction of an outpatient clinic building at the municipal hospital No. 2.

We should continuously enhance the family planning work and bring the urban population under strict control. Efforts should be made to earnestly publicize and implement the "regulations" of the municipal birth control and to orient the family planning work on the track of legal systems. We should consolidate and enhance the building of family planning networks and centers across the municipality and particularly among rural areas and further enforce the birth control responsibility system. In consolidating and reducing the number of units in charge of approving the entrance of outside people to Beijing, the municipal people's government has decided to establish a special group in charge of the centralized approval of entrance of outside people to the municipality.

#### I. Environmental Protection

We should continue to implement this year the managerial systems with the core of the responsibility system for the attainment of environmental protection objectives and of the appraisal system for the fixed-quota work done in consolidating the environment in a comprehensive way. Continuous efforts should be made to regard as an emphasis the work of preventing or controlling air pollution and of protecting the sources of potable water, to carry out urban consolidation in a comprehensive way, to do a good job in consolidating the key items which are causing pollution, to enhance the protection of agricultural ecology, and to improve the environmental quality. The municipal people's government should continue to do 10 practical deeds of environmental protection for the masses. Districts, counties, bureaus (general companies) should also define their tasks of doing practical deeds in this regard for themselves.

#### J. Commodity Prices

We should continuously implement the guiding ideology of "either stabilizing the commodity prices or making the economy prosperous" and further enhance the management over commodity prices. In line with the demands set by the state, efforts should be made to resolutely and earnestly enforce the price readjustment among the items

set in the state unified arrangements, to bring the chain reaction under strict control, and to prevent anyone from raising prices by seizing the chaotic opportunity or raising prices arbitrarily. We should continuously centralize the managerial competence and carry out strict control over the commodity prices managed by the municipality, which are fixed by the state or are of the state guidance ones, as well as over the standards of administrative charges. Departments should not put forward arbitrarily the items of price readjustment. As for the prices of markets and trade fairs as well as commodity prices, the industry and commerce administrative department should further enhance its management over them, continuously and earnestly clear or consolidate the items and standard of administrative charges, and further strengthen the price supervision and inspection.

#### K. People's Livelihood.

On the basis of developing production and raising labor productivity and economic efficiency, we should enable the people to improve their living continuously. It is necessary to further strengthen management over the number of workers and the wage funds and persist in the system of conducting general wage survey and jointly checking up on wages. We should continue to implement the employment principle of "combining job assignment by labor departments, with voluntary collective employment and self-sought employment" among job seekers in cities and towns. While arranging jobs for graduates of colleges, secondary specialized schools, and skilled workers schools, we should gear to the needs of plants, mining enterprises, grass roots, and various economic sectors. Under the arrangements of the draft plan, this year the total wages of new state-owned units should be used according to the state unified stipulations. These wages should be first used for paying workers who have been turned from temporary workers into regular workers and workers whose grades have been fixed, for increasing workers and for implementing the method of linking the payroll of enterprises with their economic performance. We should proceed from the actual situation of enterprises while raising the wages of workers and strictly link their wages with economic efficiency. The income of peasants will increase by a certain extent over last year along with the development of agriculture and township enterprises. The average per capita living space of the urban and rural residents will increase continuously. It is planned that this year 5 million square meters of houses for urban residents will be completed in the whole municipality, and more than 100,000 residents will improve their housing conditions. The problems of some households with great difficulties in housing will be solved.

#### Fellow deputies:

To comprehensively fulfill all plans and tasks for this year, we should particularly grasp well the following major tasks:

First, we should realistically concentrate the main energy on structural readjustment. First of all, we should give special emphasis to increasing the supply of funds, and in line with the state industrial policy, try by all possible means to arrange more funds for strengthening key

projects within the scope of the investment plan for fixed assets. At the same time, we should readjust the structure of existing assets and be determined to adopt administrative, economic, and legal means to merge some enterprises or order them to switch to the manufacture of other products if their products are unmarketable or overstocked for a long time, and if they are running in the red in line with the principle of selecting the best and eliminating the poor; we should support and encourage enterprises to maintain cooperation, develop enterprise groups, and promote the rational flow of essential production factors.

Second, we should proceed with the work, improving the external environment of enterprises, strengthening the internal management of enterprises, and invigorating enterprises, particularly state-run large and medium-sized enterprises. We should conscientiously implement the laws, regulations, and policies promulgated by the state and Beijing Municipality on invigorating enterprises; continue to create conditions for improving the external environment of enterprises, gradually enable them to become commodity producers and managers running independently and assuming responsibility for their own profits, losses, and accumulations; and enhance their capacity to develop, transform, and restrict themselves. Based on the "38 measures" implemented last year, the municipal government has formulated 40 policies and measures for supporting eight aspects including industrial development and further invigoration of enterprises. Meanwhile, we should study and popularize the experience of Shoudu Iron and Steel Company, adhere to the reform orientation, establish a perfect internal management system, and raise the enterprise quality and economic efficiency.

Third, we should actively carry out the "quality-variety-efficiency-year" activities and exert efforts to raise the economic level. From the municipal government down to all trades and professions, all of them should conscientiously grasp well this work and formulate measures for attaining the targets of their own units and enterprises.

Demands set in the draft plan are to have the raw material consumption of major industrial products somewhat show a decrease; to have the energy consumption of per 10,000 yuan output value show a 3 percent decrease; to have the water consumption of per 10,000 yuan output value show a 4 percent decrease; to have local state-run industrial enterprise strive to upgrade the rate of fund circulation, profits, and taxes as well as achieve 10-day faster than 1990 in fund circulation; to have the state-run industrial enterprises show a 2 percent increase in their labor productivity; to have the rate of expenses spent on commercial operation show a 1 percent decrease; to have the rate of fund circulation, profits, and taxes show a 3 percent increase; to have the per capita productivity show a 7 percent increase; to have the rate of commodities enjoying brisk sales reach about 90 percent; and to have the construction enterprises vigorously improve their work quality, foster the idea of regarding projects of vital and lasting importance and of quality first, strictly observe the standard of work test acceptance, ensure the rate of fine work in the built projects to reach to 40 percent, the rate of

labor productivity in kind to show a 2 percent increase, and the rate of putting the built projects of fixed assets into operation to reach 70 percent.

Fourth, we should further invigorate and broaden the markets to accelerate the pace of economic cycle. The emphasis of invigorating the markets should be placed on invigorating the markets of means of production and on adequately increasing the demands of investments and that of broadening the markets should be placed on broadening the rural markets and on vigorously increasing the production and sales of the means of agricultural production and of rural consumer goods. We should make all-out efforts to unclog the channels of commodity circulation and not only actively bring into play the role of the state-run commercial firms, the supply and marketing cooperatives, and the material supply departments in being the main channels of commodity circulation but also make effort to reduce the number of links and levels of commodity circulation so as to achieve the smooth flow of goods.

Fifth, we should further emancipate our minds; uphold or improve the reform measures which have been proved as effective; and work out new reform measures to promote the economy to achieve sustained, stable, and harmonious development. In addition to successfully conducting reform in the managerial systems of foreign trade, financial affairs, banking affairs, and of planning according to the central arrangements, the municipality will emphatically conduct reform in the following aspects:

In conducting reform among enterprises, we should regard as an emphasis the work of enhancing the vigor of enterprises, particularly large and medium-sized enterprises; further improve or deepen the business responsibility systems with the "two guarantee and one link-up" as their major form; continuously broaden the business self-determination right of enterprises and the right of making policy decision on investments; realistically relieve the burdens of enterprises; refrain from collecting expenses at will from enterprises except for the legalized taxes and charges; organize step by step and in a planned manner a number of enterprise groups and joint corporations full of competitive capability; enhance the internal management of enterprises; and should uphold or improve the plant director (manager) responsibility systems.

In conducting reform in the commercial systems, we should uphold or improve the contracting system; further do a good job in conducting associated reforms in the internal items and in the wholesale systems; have enterprises get out of their difficult position; enhance the vigor of wholesale enterprises; authorize the Dongan group and department store, the Xidan department store, and the Youyi corporation to undertake independent economic plan or to organize an independent enterprise group; and should conduct reform in the purchase and sale systems of vegetables, grains, and edible oil.

In conducting reform in the investment system, we should further conduct reform in the measures of conducting

public bidding and entering a bid for design and construction of projects, improve or expand the method of enforcing the responsibility system of investment in line with the needs of the bureau and of projects; and should establish the system of auditing and supervising the whole process of capital construction projects.

In conducting reform in the labor system, we should further enforce the per-capita-productivity responsibility system, continuously optimize the labor organizations, conduct reform in the enterprises' systems of labor and personnel affairs and of distributions, and should further smash the iron rice bowl and overcome the egalitarianism.

In the reform of educational system, we should continue to implement the principle of "consolidation, improvement, deepening and upgrading", among primary and middle schools as well as vocational senior middle schools and comprehensively raise the educational and teaching quality. Municipal institutions of higher learning should draw pilot experiences from the teachers' institutes and the Beijing Engineering University so as to comprehensively enter the orbit of reform. Secondary specialized schools, technical schools and adult educational institutes and schools should conduct supporting reforms, such as the reform of the internal personnel, labor and wage systems of schools in a planned and step-by-step manner.

In the reform of scientific and technological system, we should gradually establish new scientific and technological organs which closely combine scientific and technological development bases of enterprises and trades with central scientific research units (universities) in Beijing, continue to promote the contract responsibility system of "three guarantees and one linkup" in municipal scientific and scientific research institutes, and further improve the internal supporting reform measures in research institutes; deepen the reform of the rural scientific and technological system and strengthen the building of county and township level scientific and technological service system; establish and perfect the system of making chief engineers assume responsibility for giving technical directions under the leadership of plant directors; and further support and direct the technology market.

In the reform of the public health system, we should continue to reform the system of public health service and the management system of health centers in townships, and strengthen management over medical charges.

In the reform of the housing system, we should continue to deepen the reform of housing system in outer suburban areas, give emphasis to the sales of houses, and actively promote the building of houses with collective funds. In conducting housing reform in near suburban areas, we should firmly grasp the renovation of dilapidated and dangerous houses, expand the ratio of selling houses, collect more funds and fulfill this task according to plan and on time. All committees, offices, bureaus and general companies of the municipal government should firmly grasp the housing renovation work of their own units, strive to make the house renovation coverage reach 30 percent, and actively promote the practice of increasing the rent for those who exceed the housing standards.

Fellow deputies:

This year's economic and social development tasks are very complicated and the problems and contradictions facing us are many. However, judging from the overall situation, this year's economic situation and favorable conditions are much better than those of the early period of economic improvement and rectification. We should follow all principles, policies, and tasks proposed by the seventh plenary session of the 13th CPC Central Committee and the outlines of the 10-Year Program for national economic and socialist development and the Eighth Five-Year Plan discussed and approved by the fourth session of the seventh National People's Congress, emancipate thinking, strive to brave our way forward, work diligently and realistically, struggle for comprehensively fulfilling this year's plans and tasks and make a good start for realizing the 10-year grand program of the municipality.

### Shandong Financial Report

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[Report on Shandong Province's 1990 final accounts and its 1991 draft budget given by Huang Kehua, director of the Shandong Provincial Finance Department, at the fourth session of the seventh provincial People's Congress on 16 April—place not given]

[Text] Deputies:

Entrusted by the provincial people's government, I will give a report on our province's 1990 final accounts and its 1991 draft budget to this session for its discussion.

#### 1. The 1990 Final Accounts

In 1990, under the correct leadership of the party Central Committee, the State Council and the provincial party committee, the people throughout the province conscientiously implemented the principle of economic improvement and rectification and in-depth reform focused on the two major tasks of stabilizing the situation and developing the economy, actively carried out the resolutions of the third session of the seventh provincial People's Congress, launched the in-depth "double increase and double economy" campaign, worked hard to overcome numerous difficulties, and made new progress in the economic and various social undertakings. We reaped an all-round bumper harvest in agriculture, maintained steady growth in industrial production, kept market commodity supplies abundant and prices stable, and made new progress in opening to the outside world. We fulfilled the revenue budget, effectively brought expenditures under control, ensured fairly successfully the needs in economic construction and various social undertakings, achieved a balance between the revenues and expenditures of the year, succeeded in accomplishing the tasks concerning the budget decided on at the third session of the seventh provincial People's Congress, and made positive contributions to sustained and stable economic development.

The 1990 revenue budget of the province was 11.564 billion yuan (including the revenue budget of 11.214 billion yuan approved at the People's Congress session and the 350 million yuan allocated from the central authorities from Qingdao City's cigarette income), and the actual revenue after final accounts was 11.57 billion yuan, accounting for 100.05 percent of the budget, and increasing by 6.88 percent over the preceding year. When the revenue from Qingdao City was excluded, the province's revenue budget was 8.997 billion yuan, and the actual revenue after final accounts was 9.071 billion yuan, accounting for 100.82 percent of the budget, and increasing by 7.9 percent over the preceding year. The essential breakdown for the revenue was as follows: Industrial and commercial taxes totaled 7.735 billion yuan, which accounted for 100.51 percent of the budgeted amount, and showed an increase of 9.93 percent. Receipts from enterprises (including the allocations to cover the deficits of enterprises) totaled 188 million yuan, which accounted for 80.82 percent of the budgeted amount, and showed a decrease of 21.82 percent. Major reasons for the failure to fulfill this budget were the difficulties in the production and management of enterprises last year, their strained financial resources, the large-scale decline in their profits, and the failure of some enterprises to accomplish their contracted tasks. Agricultural taxes totaled 257 million yuan, which accounted for 95.44 percent of the budgeted amount, and showed an increase of 1.27 percent. Agricultural taxes did not reach the budgeted amount mainly because the central authorities granted tax reductions and exemptions totaling 18 million yuan to some disaster-stricken areas of our province. Taxes collected from the use of cultivated land for non-agricultural purposes, which were shared by local authorities, totaled 122 million yuan, accounting for 104.49 percent of the budgeted amount, and a decrease of 14.43 percent. Taxes collected from the sale of special agricultural and forestry products totaled 90 million yuan, accounting for 110.74 percent of the budgeted amount, and increasing by 24.86 percent. Funds collected for construction of key energy and transport projects, which were shared by local authorities, totaled 112 million yuan, accounting for 72.7 percent of the budgeted amount, and a decrease of 17.53 percent. Budget regulating funds which were shared by local authorities totaled 153 million yuan, accounting for 95.74 percent of the budgeted amount, and showing an increase of 28.83 percent. These two categories of funds were related to the receipts from enterprises, and the major reasons that we failed to reach the budgeted amounts were the decline in the economic efficiency of enterprises and the reduction in the funds at their disposal. Pollutant discharge and water resources funds totaled 185 million yuan, accounting for 98.26 percent of the budgeted amount, and showing an increase of 6.32 percent. In addition, 560 million yuan of treasury bonds and 210 million yuan of special state bonds were sold, exceeding by 33.25 percent of the quota assigned by the central authorities.

The 1990 expenditure budget was 12.955 billion yuan (including the expenditure budget of 12.314 billion yuan approved at the People's Congress session and the special funds to be turned over to the central authorities as required), and the actual expenditure after final accounts

was 13.029 billion yuan, accounting for 100.57 percent of the budget, and increasing by 8.32 percent over the preceding year. Excluding the expenditure of Qingdao City, the expenditure budget was 11.581 billion yuan, and the actual expenditure was 11.636 billion yuan, accounting for 100.48 percent of the budgeted amount, and showing an increase of 8.08 percent. Of the expenditure, 920 million yuan was to be transferred to the next year for continued use, and the remaining 10.716 billion yuan was spent in the year, which showed an increase of 9.03 percent over the preceding year.

The major financial expenditures for the year were as follows: Spending on capital construction was 709 million yuan, a 43.84 percent increase over 1989. Mainly through the measure of curtailing provincial level spending, the province only increased the expenditures on the construction of the province's key and special projects, including the construction of the compound fertilizer plant. Spending on encouraging enterprises to tap their potential was 98 million yuan, a 17.59 percent increase over 1989. Spending on urban maintenance was 618 million yuan, a 0.93 percent increase over 1989. Spending on environmental protection and on developing water resources was 186 million yuan, a 20 percent increase over 1989. On supporting rural production and on various agricultural undertakings, spending was 1.054 billion yuan, a 9.46 percent increase over 1989. Those on the undertakings of culture, education, and public health were 3.171 billion yuan, an 8.98 percent increase over 1989. Of the spending, that of education was 1.959 billion yuan, a 9.18 percent increase over 1989. Spending on the three projects of science and technology and on the scientific undertakings was 185 million yuan, an 11.86 percent increase over 1989. Spending on pensions and social relief were 436 million yuan, a 15.32 percent increase over 1989. On administrative affairs and management, spending was 966 million yuan, an 8.53 percent increase over 1989. Spending on the administration of public security organs, people's procuratorial offices, and people's courts was 451 million yuan, a 9.08 percent increase over 1989. Spending for subsidies for price hikes were 1.435 billion yuan, a 7.77 percent increase over 1989.

The province's local financial balance in 1990 is as follows: Total revenues were 15.211 billion yuan, including the revenue set in the budget, the special funds reimbursed from 1989, the special funds and subsidies released by the central authorities, and the funds outside the budget provided by various cities, prefectures, and counties. Total spending was 15.21 billion yuan, including the expenses set in the budget, the special funds transferred to 1991, and the funds handed over to the central authorities in line with the regulations set in the systems. In line with the overall accounting of the province as a whole, income balanced expenditure and there was a 660,000 yuan surplus in the year. By excluding the income of Qingdao City, the province's revenues for the year were 12.26 billion yuan and spending was 12.241 billion yuan. The province's incomes balanced its expenditures for the year and there were 19.06 million yuan surplus. As of now, the

province has maintained a balance between its incomes and expenditures over the past four consecutive years.

Fellow deputies: The better implementation of the 1990 budget comprehensively reflects the sustained and stable development of the province's economy and represents an outcome achieved by party committees at all levels, which have enhanced their leadership over the implementation; and by the People's Congresses at all levels, which have strengthened their supervision over the implementation and vigorously supported the implementation. The market slump, product overstock, the strained situation in funds, the large-scale decline of economic results, and the contradiction between financial supply and demand, which cropped up in the economic life in 1990, were very prominent. The large extent of financial difficulties and the large number of contradictions cropping up in the year have been unprecedented over the past number of years. In facing various difficulties, leading personnel at all levels have persisted in the idea of increasing incomes and curtailing spending to ensure a financial balance; governments at all levels and various industries and trades have advanced as well despite difficulties, waged arduous struggles, actively developed production, enlivened the commodity circulation, realistically enhanced management over financial and tax revenues, adopted every possible way and means to increase incomes, brought the financial expenditures under strict control, and have done a great deal of effective work to fulfill the financial budget and to ensure a balance between revenues and spending.

A) We grasped production, enlivened the channels of commodity circulation, and promoted the overall development of the economy. Enterprises encountered many difficulties in their production and business in 1990. At the beginning of 1990, they even suffered a production decline and economic slump. In coping with these problems, the provincial people's government organized in a timely manner the total warfare of industrial production and mobilized the forces of various circles to make concerted efforts to help enterprises tide over their difficult period. In enforcing the policies, the provincial people's government adopted many favorable measures for enterprises to develop their production and expend their sales. In releasing funds, it, through the scientific allocation and reasonable usage, actively raised funds for clearing up the "debt chain" and relieved the difficulty cropping up in the fund circulation of enterprises. In conducting its work, the provincial people's government conducted investigation and study among the key enterprises which had suffered losses or earned a large amount of profits; established the system of making contact with enterprises; learned in a timely manner about the situation in the production and business of enterprises; and helped enterprises carry out the "campaign" of increasing production and practicing economy as well as of increasing incomes and curtailing expenses, improve their operation and management, tap their potential, and overcome their difficulties, thus having promoted the revival of production. The total industrial output value in the year showed a 9.2 percent increase over 1989 and the total retail sales showed a 5.4

percent increase over 1989, all of which had laid a solid foundation for fulfilling the tasks of annual revenues.

New progress was again made in the work of those counties which each reached 100 million yuan in financial revenues and those townships and towns which each reached 10 million yuan in revenues. As far as the counties, townships, and towns with a relatively strong leading body, a relatively good economic foundation, and a great potential in revenues, governments at all levels continued to give them support on a priority basis. Despite the grave difficulties last year, thanks to concerted efforts of various fields, Zichuan, Tengzhou, Longkou, and Huancui Cities and districts each topped 100 million yuan in their revenues after overcoming numerous difficulties; and Zhichu Town in Zhifu District, Fushan Town in Fushan District, Yidu Town in Qingzhou City, and the Lanshan Agency of Linyi City topped 10 million yuan each in their revenues through arduous work. Thus far, there are 16 counties in the province whose revenues reach 100 million yuan each, and 15 townships and towns whose revenues reach 10 million yuan each. Special support was continuously given to the counties financially subsidized by the state. As far as these counties, all economic and comprehensive departments "acted in coordination, implemented the preferred policies simultaneously, gave support in a comprehensive manner, and each assumed responsibility for the work. Such departments also constantly summarized and popularized advanced experiences, thus promoting the economic development and facilitating the increase in revenues of such counties. After several years' endeavor, a number of counties have become self-supporting in finance or have reduced their gaps between revenues and expenditures.

B) We tapped potential, strictly collected and managed revenues, and energetically organized financial revenues. Last year, affected by market slump, overstocking of products, and the "chain debts," debt defaults were in a very serious case, and the task of organizing revenues was very arduous. All levels of departments in charge of collection and management of revenues gave consideration to the overall situation, bravely shouldered heavy burdens, strengthened collection and management, grasped key tax sources with one hand and scattered tax revenues with the other hand, and exercised direct control and administration over a number of key tax paying counties and units by establishing the revenue accounts. All levels of banks closely coordinated with all levels of financial and tax departments, and supported each other, thus scoring great achievements in organizing revenues and clearing up debt defaults, and effectively ensuring the fulfillment of the annual revenue tasks. The province's gross revenues from industrial and commercial taxes registered a 9.28-percent increase. And a 37.1-percent increase was registered in the revenues from those tax categories which were difficult to be collected and managed, such as construction tax, individual income regulatory tax, real estate tax, and tax for use of motor vehicles and ships. Good results were achieved in the general survey of tax revenues, financial affairs, and commodity prices. Last year, the province as a whole ferreted out a

total of 391 million yuan in undisciplined money and in the money which should be delivered to the state, of which, 366 million yuan was already put in the state treasury. Last year, the province also extensively unfolded the propaganda activity on paying taxes according to law, on "double increases and double decreases," and on ensuring financial balance. All circles in society were all the more concerned with, comprehended, and supported financial and tax work; positively supported and protected tax levies, and dealt blows to the incidence of refusing to pay taxes through violence, thus playing an important role in fulfilling revenue tasks and striking a balance between revenues and expenditures.

C) We stepped up confidence, exercised control over expenditures, and ensured the balance between revenues and expenditures. As far as last year's financial balance, the provincial party committee and the provincial government were very steadfast in ideology and very energetic in work. In light of the problems emerging in implementation of last year's budget, the provincial government issued emergency circulars on two occasions, and convened financial and tax affairs conferences on four occasions at critical moments. Principal leading comrades of the provincial party committee and the provincial government personally took up the financial work, made a timely analysis of the financial and economic situation, unified the understanding of various fields, strengthened the confidence of party committees and governments at all levels, and set forth measures and demands on increasing revenues and cutting expenditures, thus playing an important role in guaranteeing the financial balance. All departments at all levels conscientiously implemented the guidelines of the series of instructions given by the party Central Committee and the provincial party committee on unfolding the double-increase and double-decrease campaign, on arduous fighting, and on leading an austere life. These departments tried their best to increase revenues and reduce expenditures, kept expenditures within the limits of revenues, handled affairs according to financial capacity, spent money in strict accordance with budget, and vigorously curbed expenditures and saved money. Last year, deducting the portion which had to be guaranteed as defined by the provincial government, the province implemented in a relatively good manner the task of curbing the provincial-level expenditures by 10 percent and the city- and prefectural-level expenditures by 5 percent. In line with reality, all departments at all levels made great efforts, and adopted many feasible measures in the fields of controlling the staff, curbing the expenses in public utilities, streamlining documents and bulletins, and improving management of free medical service.

When allowing for the factors that led to expenditure increase due to policy reasons, such as the expenses for the increased staff, wage increase and census, the administrative expenses of the province remained basically the same as in the preceding year. We achieved notable results in controlling the institutional purchases of society while ensuring the needs in production and scientific research thanks to the responsibility system and the efforts to straighten out the procedures for screening and approving

purchases, improve managerial methods, and strictly enforce the discipline concerning purchase control. The purchase control quota assigned to our province by the central authorities was not surpassed.

D) We made efforts to ensure essential projects while reducing nonessential ones, and increase agricultural investment and the investment of intellectual resources. Despite the extremely strained financial resources, departments at all levels made flexible and rational arrangements for their funds, reduced the expenses for general purposes, and actively raised funds to make more investment in various key projects while ensuring the various normal expenses. This manifested the requirements for enlivening the use of funds while practicing retrenchment, and for ensuring essential projects while reducing nonessential ones. Last year, financial departments allocated 1.054 billion yuan for use in agricultural, forestry and water conservancy projects and for supporting rural production. This plus the agricultural-oriented working funds and the agricultural development funds made the total investment 2.252 billion yuan, equivalent to the total agricultural-oriented investment made by financial departments during the Sixth Five-Year Plan period. In the past year, the province transformed 44,000 hectares of low- and medium-yielding farmland, applied new grain, cotton and oil-bearing crop production technology to 1.112 million hectares of farmland, afforested 44,000 hectares of land, started or continued building of 349 small reservoirs, sank 58,000 wells, and repaired and built 1,841 projects to supply drinking water to people and animals. This effectively supported the development of agricultural production. Educational expenses totaled 1.959 billion yuan, up 9.18 percent from the preceding year. Departments at all levels also adopted every means to raise funds for educational use. As a result, school conditions for instruction and learning were further improved, and education was further developed. Expenses for scientific and technological purposes totaled 185 million yuan, up 11.86 percent from the preceding year. The province scored 2,112 significant scientific and technological achievements, up 155 from the preceding year. Seventy percent of the achievements were disseminated and applied, thus playing an important role in facilitating our province's technological progress and production development.

Deputies, while reviewing our achievements, we should also see our difficulties and problems. First, last year's financial balance was not stable enough, and some localities with a weak economic foundation still had deficits. Among the 151 city- and county-level budget units, 23 incurred deficits in the year totaling 117 million yuan. By the end of last year, the accumulated deficits of the 89 loss-making units totaled 322 million yuan. Second, the funds owed by financial departments to grain enterprises continued to increase. Last year, many measures were adopted, such as reducing the sales of grain and oil at government prices, conducting special financial inspections of grain enterprises, adopting the system of unified accounting and responsibility of the profits and losses of grain enterprises, and collecting funds to compensate the price differential for the grain and oil supplied to staff

members and workers. However, because the deficits incurred in the sales of government-priced grain and oil increased, the profits in the sales of grain and oil at negotiated prices in the preceding year became deficits last year. This exceeded the capacity of local financial departments. The funds owed grain departments rose by more than 500 million yuan from the preceding year, and the accumulated amount of funds that should have been paid to grain enterprises totaled 1.339 billion yuan. Third, the economic efficiency of enterprises declined by a large margin. Last year, the profits of local state industrial enterprises of our province declined by 53 percent from the preceding year, and their profits and taxes turned over to higher authorities declined by 17.45 percent. A total of 22.8 percent of these enterprises suffered deficits, and the amount of deficits increased by 3.9 times. The cost of comparable products rose by 6.03 percent from the preceding year, the funds tied up in stockpiled products and manufactured goods increased by 1.267 billion yuan, or 28.62 percent, and the amount of profits created by per 100 yuan of funds was 4.3 yuan, showing a decrease of 61.64 percent. The decline in the economic efficiency of enterprises affected not only our financial work but also the entire economic activities. Fourth, lax management and supervision of financial and tax work still existed in some aspects. Some localities lacked the spirit of plain living and arduous struggles, did not firmly practice austerity, and had a serious problem of waste in revenues and expenditures. The phenomena of using public funds for giving parties and gifts, and for sightseeing reemerged. We should adopt effective measures to solve these problems.

## 2. The 1991 Financial Draft Budget

In line with the spirit of the Seventh Plenary Session of the 13th CPC Central Committee and of the fourth session of the Seventh National People's Congress as well as according to the demands set in the province's plan of the national economy and social development, the guiding ideology and principles of the province's arrangements for the financial revenue and spending plans this year are to promote the development of production, to increase economic results, to accurately ensure a stable increase in financial revenues, to readjust the spending structure, to curtail the general expenditures, to ensure the construction of key projects and the need to develop key undertakings, to strictly conduct financial management, to uphold the guideline of keeping expenditures within the limits of incomes, to maintain a balance between financial revenues and spending, and to continuously render services for stabilizing the situation and developing the economy.

The arrangement for the province's 1991 financial revenue budget is 12.148 billion yuan, a 5 percent increase over 1990. By excluding the revenue of Qingdao City, the budget is 9.524 billion yuan, a 5 percent increase over 1990. Of this revenue budget, that of industrial and commercial taxes is 8.243 billion yuan, a 6.56 percent increase over 1990; that provided by enterprises (including the appropriation of subsidies for the money-losing enterprises) is 136 million yuan, a 27.4 decrease over 1990

mainly because of the increase in subsidies for the money-losing grain enterprises; that of agricultural taxes is 270 million yuan, a 4.78 percent increase over 1990; that of taxes levied from the special forestry and agricultural products is 90 million yuan, being equal to the figure of 1990; that of taxes levied from the occupation of farmland is 110 million yuan, a 10.04 percent decrease over 1990; that of the local shares of funds for building the key projects of energy resources and communications is 157 million yuan, a 39.7 percent increase over 1990; that of the local shares of funds for readjusting the budget is 174 million yuan, a 13.95 percent increase over 1990; that of charges for eliminating pollution and developing water resources is 191 million yuan, a 3.39 percent increase over 1990; and that of other items is 142 million. In addition, the treasury bond sales authorized by the state are worth 496 million yuan and the special treasury bond sales are worth 160 million yuan.

Arrangements for the 1991 financial expenditure budget is 13.509 billion yuan. Of this budget, expenditures purely spent in the year are 12.49 billion yuan, a 4 percent increase over 1990. By excluding the spending budget of Qingdao City, the province's expenditures are 12.065 billion yuan, of which, those purely spent in the year are 11.145 billion yuan, a 4 percent increase over 1990. Calculated in terms of the accounting of existing financial systems and by excluding the special usage of urban maintenance and construction taxes and the increase of funds handed over to the state, arrangements for the 1991 spending budget is smaller than that of 1990 and difficulties which will be encountered by the financial departments at all levels will be larger than those of 1990. Based on this, in making arrangements for various expenditures, first of all we have ensured the funds and basic preservation funds of personnel and organs; shown a proper increase in the funds of agriculture, education, and science and technology; and have maintained the 1990 level or curtailed the funds in other fields. Major arrangements for the spending budget are as follows: Expenditures for capital construction are 709 million yuan, being equal to that of 1990; those for enterprises to tap their potential and conduct technical renovations are 103 million yuan, a 5.27 percent increase over 1990; those for urban maintenance are 635 million yuan, a 2.85 percent increase over 1990; those for environmental protection are 126 million yuan, being equal to that of 1990; those for developing urban water resources are 71 million yuan, a 13.67 percent increase over 1990; those for the undertakings of culture, education, and of public health are 3.306 billion yuan, a 4.26 percent increase over 1990, of which, those for educational undertakings are 2.078 billion yuan, a 6.06 percent increase over 1990; those for the three scientific and technological projects and the scientific and technical undertakings are 195 million yuan, a 5.39 percent increase over 1990; those for pensions and social relief are 456 million yuan, a 4.45 percent increase over 1990; those for the administrative funds are 998 million yuan, a 3.26 percent increase over 1990; those for the funds of public security organs, procuratorial offices, and people's courts are 471 million yuan, a 4.43 percent increase over 1990;

those for the subsidies of price hikes are 1.403 billion yuan, a 2.23 percent decrease over 1990; and those for preparatory funds are 172 million yuan.

The aforementioned is only the province's general calculation for guidance. In line with the financial systems of "being responsible at every level" and the aforementioned demands, departments at all levels, according to their own reality, should make specific arrangements by following the principle of keeping expenditures within the limits of their incomes and of seeking a balance independently.

The following issues concerning the arrangements for this year's budget should be explained.

A) The issue of raising economic efficiency. The central authorities called on industrial and communications enterprises to reduce their raw material and energy consumption for this year by 2 to 3 percent over last year. They also urged industrial, communications, and commercial enterprises to reduce their workshop expenses, enterprise management funds, and cost of commodity circulation, excluding wages, interest, and depreciation funds, by 5 percent, and their deficits resulting from poor management by 50 percent, and to strictly keep their deficits due to policy reasons within the established quotas. Through the aforementioned measures, the revenue of the country should increase by 3 billion yuan, and the increase quota assigned to our province is 116 million yuan (or 89 million yuan when Qingdao City is excluded). The revenue from this source has been included in the budget, and quotas have also been assigned to various localities. Departments at all levels are urged to make great efforts to improve enterprise management and raise efficiency so as to fulfill the quotas.

B) The issue of invigorating large- and medium-sized enterprises. To support the development of large- and medium-sized enterprises, this year's budget arranges 103 million yuan for enterprises to use in tapping potential and carrying out technical transformation. Meanwhile, the provincial financial department plans to increase some loans for small technical transformation projects to be used mainly by large- and medium-sized enterprises so as to enhance their capacity for technical transformation. The provincial government also decided that from the increase, 8 percent, in the funds turned over by cities to the province this year, 1 percent will be returned to cities and prefectures for use particularly in supporting large- and medium-sized enterprises. In the process of implementing the budgets, financial departments at all levels should also make active efforts to raise funds to increase the investment in large- and medium-sized enterprises, support their technical transformation, invigorate their production and raise their efficiency.

C) The issue of increasing the funds to be turned over to the central authorities as a new contribution. The central authorities decided that beginning this year, the refund of taxes on some local exports should be shared by the central and local authorities together instead of by the central financial department alone, as in the past. Our province (excluding Qingdao City) should share 15 percent of the refund totaling about 150 million, which should be turned

over to the central authorities as a kind of special fund. The provincial government decided that this category of funds to be turned over to central authorities should be shared by the province and the various localities, with the province responsible for 48 million yuan and the various localities 102 million yuan. With the quotas specified, all localities are urged to take the overall situation into account, and fulfill their quotas.

D) The issue of increasing agricultural investment. This year's budget arranges 1.11 billion yuan for use in supporting rural production and other agricultural projects. Other financial allocations to agriculture as well as some extra-budgetary funds, the agricultural-oriented working funds and agricultural development funds managed by financial departments at all levels, and some World Bank loans are estimated at 1.15 billion yuan. Meanwhile, in the process of implementing the budgets, departments at all levels will continue to increase agricultural investment in line with their financial capacity. The actual investment in agriculture will be greater than the aforementioned figures. This year's agricultural-oriented funds should be used mainly in comprehensive agricultural development projects, in repairing and building farmland water conservancy projects, in improving the basic agricultural production conditions, in popularizing agricultural science and technology, and in rendering scientific and technological service. To meet the requirement of the provincial party committee for learning from Guangdong to afforest Shandong, the provincial financial department also decided to arrange some special funds for use in afforesting barren hills and greening urban areas.

E) The issue of educational, scientific, and technological funds. According to this year's budget, educational funds total 2.078 billion yuan, up 6.06 percent, and scientific and technological funds 195 million yuan, up 5.39 percent. The increases are not only higher than the average growth rate of the budgetary expenditure but also higher than the average growth rate of the budgetary revenue.

Besides the expenses covered in the budget, there are some funds that can be used to develop education and science and technology, including urban and extra rural education funds, staff and workers education funds, funds for running schools by departments and enterprises, and school-running funds collected from the masses. The provincial government is also determined to arrange special funds to support the development of advanced science and technology. There are comparatively many sources and channels for educational and scientific and technological funds. In addition, the province is able to continuously increase the input to science and education in the course of implementing the budget according to the financial situation, it should also make a reasonable arrangement, strengthen management, give full scope to the efficiency of funds, and strive to promote the development of education and science and technology.

F) The issue of subsidies for money-losing foreign trade enterprises. After reforming the foreign trade system in 1988, our province directly designated foreign trade enterprises to contract for the deficit targets defined by the

central authorities. To make foreign trade enterprises embark, in a step-by-step manner, in the orbit of unified policies, equal competition, independent management, and self-responsibility for profits or losses, after the readjustment of the exchange rate of Renminbi and the change in the method of retaining the divided portions of foreign exchange, the State Council decided that from this year, the subsidies for the losses from export commodities of foreign trade should be canceled and the subsidies to the localities for making up the losses from the export commodities should be canceled. (The subsidies to our province used to be 948 million yuan.) The provincial government defined that the financial affairs of the province's local foreign trade should still be contracted by the provincial foreign trade bureau based on the principle of assuming sole responsibility for profits or losses.

### **3. Being Inspired With Enthusiasm, Forging Ahead, and Striving To Fulfill the 1991 Budget Tasks**

The year 1991 is the first year to carry out the Eighth Five-Year Plan period as well as a key year for continuously improving the economic environment, rectifying the economic order, and deepening reforms. To fulfill the 1991 national economic and social development plan, to realize the budgeted tasks, and to guarantee a balance between revenues and expenditures, we should act under the guidance of the seventh plenary session of the 13th party Central Committee and the fourth session of the seventh National People's Congress, keep a good mental state, make ceaseless efforts to bridge difficulties, strive to broaden sources of income and reduce expenditures, and attend to, in a down-to-earth manner, the following few tasks.

A) We should firmly attend to enterprise management and strive to promote the development of production and increase revenues with the focus on upgrading economic results. The economy is the foundation of finance. That the State Council designated 1991 as "year of quality, variety, and efficiency" has created extremely favorable conditions for pioneering sources of income and increasing revenues. Thus, various levels should take favorable opportunities to intensify the sense of quality, variety, and efficiency to grasp the readjustment of product mix. We should support the development of high-quality, readily marketable, and high-efficient products, and put into high gear to promote the production of these products; and adopt economic and administrative means to limit the production of poor-quality and not readily marketable products and to stop the phenomenon of continuously producing the stockpiled products. We should realistically strengthen and improve enterprise management; help enterprises set up and perfect quality, fixed-quota, goods and materials, costs, and financial management methods; be strict in economic accounting; and promote an increase in economic results and income by strengthening the basic management work. We should continue to deeply and solidly launch the campaign of increasing production, practicing economy, increasing revenues, and reducing expenditures; firmly attend to the work of turning deficits into profits; implement the state-assigned targets at each level; continue to

sum up and popularize good experience and good work methods; and strive to make a breakthrough in turning deficits into profits in 1991.

To upgrade the overall economic results, we must concentrate energy on enlivening large- and medium-sized enterprises. Large- and medium-sized enterprises are the main force of the province's economic construction as well as the main sources of revenues. The provincial government asked to give priorities to the 885 key enterprises, as listed by the province, in the order of energy resources, raw materials, capital, foreign exchange, and transportation services.

Meanwhile, we should also adopt some preferential policies favorable for enterprises to enhance their vigor and motive forces. For example, we should upgrade the rate of depreciation of the fixed assets among a number of enterprises; have specific enterprises which have enjoyed state support in the key fields, had heavy tasks of conducting technical renovations, and been weak in loan repayment, with the approval of higher authorities, repay their loans with their newly increased funds of depreciation, their newly increased profits, and with their payment of taxes reduced or exempted from their new products in line with the regulations; and should extract a certain rate of funds in line with the income from sales for making up the circulation funds on the premise of ensuring the fulfillment of the contracts on funds handed over to the state. Efforts should be made to invigorate and strengthen the vigor of enterprises; to create conditions for enterprises; and to encourage enterprises to pay attention to their internal affairs, to bring their subjective initiative into full play, to tap their internal potential, to enhance their operation and management, and to increase their economic results.

B) We should uphold the principle of helping the poor and promoting the rich to make further progress and enhance the financial construction at the county level. Efforts should be made to earnestly implement the strategic guideline of the provincial party committee with regard to "opening eastern Shandong to the outside world, developing western Shandong, integrating the eastern development with the western one, and carrying out mutual development". A good job should be done in grasping the work of helping the counties which have enjoyed financial subsidies and of having counties with conditions strive to score more than 100 million yuan of financial revenue by regarding the work as a big event. We should also reinforce the financial foundation at the county level. The provincial people's government has decided to orient the work of helping the counties which have enjoyed the financial subsidies develop their economy and achieve financial self-sufficient into the "Eighth Five-Year Plan". It urges governments at all levels to enhance their leadership and to formulate unified plans; as well as various departments to make concerted efforts to earnestly and successfully make arrangements for formulating specific plans this year and to implement the measures of helping or supporting the poor. In enforcing their policies, the economic departments across the province should continuously give preferential treatment to these counties, and in releasing funds, they should support them in key fields. The provincial

financial department plans to establish the special foundation of helping the counties which have enjoyed the financial subsidies to help them develop the economy; open more financial sources; and strive to reach the standard of self-sufficiency and narrow their gap between revenues and spendings this year, and to achieve total self-sufficiency in finance during the "Eighth Five-Year Plan" period or a little longer. In enforcing the policies and releasing funds, we should continue to give necessary support to the regions with faster economic development and to encourage them to make full use of their strong points, good economic foundation and high economic results, to create more revenues and to strive to have more counties score 100 million yuan of financial revenue and more towns and townships score 10 million yuan of revenue so as to spur on economic development and the increase of financial revenues across the province.

C) We should uphold the principle of running the tax affairs in line with the law to accurately ensure the stable increase of revenues. Tasks for tax revenues this year are very heavy and require the departments at all levels to uphold the principle of running the tax affairs in line with the law and to fully hand over the revenues which deserve to be handed over to the state in a timely manner. Efforts should be made to enhance the collection and management of tax revenues; to improve the methods of tax collection and management; to perfect the relevant systems; to establish the managerial system of running the tax affairs in a comprehensive way; to enhance the regular supervision and inspection; to continuously and successfully conduct mass inspection over tax revenues, financial affairs, and commodity prices; to prevent tax evasions; and to strictly enforce the financial and economic disciplines. In line with the order of "tax, loan, goods, profit", we should earnestly clear up the delinquent tax payments, press the tax debtors to pay their taxes, and vigorously prevent the occurrence of new tax debtors. We should also earnestly examine the cases of tax reduction and exemption as well as of the tax refund enjoyed by the export companies and strictly carry out the examination and approval. Cases which are not in conformity with the provisions of the tax law and with the limits of tax revenue authority will not be handled. A good job should be done in vigorously conducting the work of levying agricultural taxes, the income taxes of enterprises, and funds for the construction of key projects of energy resources and communications and for regulating the budget; and in actively selling the state treasury bonds and storing the incomes through the bond sales so as to ensure the fulfillment of various revenue tasks set in the budget.

D) We should bring expenditures under strict control to ensure the needs of key construction projects and other undertakings. Departments at all levels are urged to continue to implement the principle of plain living, arduous struggle and building up all our undertakings through frugality and hard work, truly take action to practice austerity and work out realistic measures to economize on expenses, to greatly reduce the expenses for general purposes and to resolutely check waste. The major reason for some localities to encounter great financial difficulties

over the past few years is their large number of departments and personnel, and their scant financial resources. A great part of their increased financial resources have been eaten up by their personnel. We should regard the strict control over the establishment and size of departments as an important measure of far-reaching significance to ease financial difficulties, and carry it out. We should make a tight budget for and economize on public expenses, such as expenses for official trips, meetings, printing, and post and telecommunication charges. We should make active efforts to reform and improve the system for management of the public funds for medical care, improve medical services, stem loopholes, and economize on the use of the funds. We should continue to strictly control institutional purchases, control the total volume of purchases, strengthen management of the purchasing quotas, and see to it that the institutional purchase quota assigned to our province by the state is not exceeded. We should further establish and improve the systems for planning incomes, accounting expenses, and distributing interests of institutions, and the systems for them to screen and approve the issuance of bonuses and allowances. We should encourage the institutions provided with necessary conditions to adopt the management measures as enterprises, make use of their favorable conditions to increase income while rendering good services, and facilitate their development to reduce their financial pressure. By strengthening and improving the management of expenditures, we should save every penny we can save to develop our construction and other undertakings.

E) We should strengthen and improve financial management to gradually reduce the financial burdens. The great amount of funds owed to grain and foreign trade enterprises has become a heavy financial burden of our province. We should pay great attention to it, and make conscientious efforts to eliminate it. After conducting investigations and study, we should adopt some realistic measures in line with our actual conditions, which are designed to strengthen management, reduce deficits and increase profits, reduce subsidies, and reduce the financial burdens. We should actively do a good job in preparing for deepening the grain and oil purchasing and marketing systems, and increase the measures for reducing the marketing of government-priced grain and oil. We should have a clear understanding of our resources, define rational base quotas, and comprehensively popularize the system of unified accounting of profits and deficits and fixed quotas for the total volume. We should strengthen and improve the financial management of grain enterprises, and encourage them to increase income and reduce expenses so that our problem of owing grain enterprises a great amount of funds can be solved gradually. We should make efforts to ensure that no new debt is incurred this year, and that some of the old debts accumulated over past years are repaid. In coordination with the reform of the foreign trade system, we should strengthen the management of foreign trade departments, further improve the relevant financial and accounting systems, strictly control the expenses which are included in cost, and see to it that no new debt is incurred this year and that old debts of past

years are repaid gradually. We should further improve the contracted managerial responsibility system of enterprises, and make the enterprises that have already signed contracts turn over their profits and taxes to higher authorities according to the contracts, and be responsible for not only their profits but also losses. We should continue to experiment with the system of separating taxes from profits in some selected localities, summarize their experiences, discover problems, improve the measures for enforcing the system, and lay a solid foundation for popularizing the system across the board.

F) We should consolidate the tax order and strengthen the construction of the financial legal system. We should continue to grasp the consolidation of the economic order; further rectify the tax order and the budget management order; conscientiously implement the "several regulations on budget examination, approval, and supervision" adopted by the Standing Committee of the provincial People's Congress; supervise and examine the implementation of the budget and the tax revenues; improve and perfect the method for management of extra-budgetary funds; set up and perfect various tax revenue regulations and systems; and better display the functions of tax revenues for regulating and controlling the economy. According to the demands of the central authorities and in line with the actual provincial conditions, we should conscientiously eliminate the phenomenon of arbitrarily collecting funds, apportioning expenses, and imposing fines; and create a fine atmosphere for ensuring the stable development of the economy. At present, we should first concentrate energy on sorting out and consolidating various phenomenon of arbitrarily collecting funds and imposing fines, perfect the methods of collecting charges and imposing fines, intensify the supervision and restriction mechanisms, and strictly stop keeping small private money-boxes and keeping income out of accounts. We should further strengthen the management of state property, gradually perfect the management system, promote the rational circulation of the property that is left unused, protect the rights and interests of state property, and stop the loss of state property. We should continue to deeply study and implement "the administrative procedural law," persistently do the administrative work and the financial affairs work according to law, stop and correct various law-breaking and undisciplined phenomena, and gradually bring the tax work into line with normal legal management methods.

We should strengthen the self-construction of tax contingents. The financial and tax departments at various levels and all financial and tax workers should conscientiously implement the line, principles, and policies of the party; adhere to the four cardinal principles; strengthen the improvement of administrative honesty and vocational and moral education, firmly foster the sense of production and the awareness of being public servants, strive to upgrade their political quality and professional level, be honest and diligent in performing their duties, work in cooperation with various fronts, attend to the work in various spheres, and fight for promoting economic development and fulfilling this year's financial and tax tasks.

Fellow deputies: In the first quarter of this year, the overall economic situation developed in a good direction. On the basis of developing production, the situation of implementing the budget was good. To fulfill this year's budget tasks, we should continue to firmly attend to various work tasks, mobilize all positive factors, and make concerted efforts to fulfill the tax work tasks. We believe that under the guidance of the guidelines of the seventh plenary session of the 13th party Central Committee, the province's political and social situation will become more stable and the economic situation will be improved continuously. Only when we are inspired with enthusiasm, forge ahead, advance despite difficulties, work arduously, conscientiously implement the guidelines of this session, and pool the joint efforts of the people will the 1991 budgeted tasks satisfactorily be fulfilled.

### Xinjiang's 1980-90 Economic Statistics

OW3005043891 Urumqi XINJIANG RIBAO in Chinese  
15 May 91 p 2

[By reporter Zhang Chuandao (1728 0482 6670)]

[Text] The fourth session of the seventh autonomous regional people's congress that opened on 14 May is an important meeting for deliberating and approving our region's 10-year program and "Outline of the Eighth Five-Year Plan" for economic and social development. Prior to the meeting, this reporter interviewed the autonomous region's statistical bureau on our region's implementation of the first strategic goal of socialist modernization. The massive statistics provided by them reveal the following impressive facts: The decade from 1980 to 1990 saw the most rapid economic development in our region and the most notable improvement in the people's livelihood; not only was the first strategic goal overfulfilled, but favorable conditions for realizing the second strategic goal in the next decade were also created.

According to statistics, our region's gross regional product and gross social product totaled 5.324 billion yuan (calculated in terms of current prices) and 9.364 billion yuan, respectively, in 1980, while its financial revenue was only 403 million yuan. After 10 years of efforts, our region's gross regional product came to 25.188 billion yuan in 1990, growing by 1.81-fold [as published] at an annual average rate of 10.87 percent. The growth rate was 1.87 percent bigger than the national rate of 9 percent. The gross social product was 45.865 billion in 1990, increasing by 1.87-fold [as published] from 1980 at an annual average rate of 11.12 percent. Financial revenue totaled 2.1 billion yuan in 1990, growing by 4.2-fold [as published] from 1980 at an annual average rate of 17.95 percent. The achievement was hard to come by for a remote border region, which got off to a relatively late start, and whose foundations used to be fairly weak.

The region's capacity for self-development was enhanced markedly. In 1980, our region's total industrial output

value was only 4.071 billion yuan; total agricultural output value, 3.575 billion yuan; and investment in fixed assets in society, a mere 2.047 billion yuan. Our region's overall capacity was enhanced noticeably, as a number of modernized industries developed swiftly, and key construction projects in water conservancy, energy, transportation, and communications were launched successively. Because of bumper harvests reaped in agriculture and animal husbandry in 1990 and for 13 consecutive years, our region's ranking in the nation in terms of per capita grain share climbed from the eighth place in 1980 to the fifth in 1989. The region, which used to consume grain brought in from other parts of the country, began to transfer its grain to other localities.

In terms of per capita cotton share, the region rose from the fifth place in the nation to the first. Output of sugar and edible oil respectively increased by 2.8-fold and approximately 1-fold. Total agricultural output value was 14.465 billion yuan in 1990, growing by 1.62-fold. Total social output value in rural areas was 16.68 billion yuan, increasing by 1.69-fold at an annual average rate of 10.39 percent. In industry, resource-oriented sectors developed rapidly, with crude salt, steel, cement, and chemical fertilizer rising by 3.17-fold, 2.4-fold, 2.1-fold, and 30-fold, respectively. The region's total industrial output value amounted to 21.992 billion yuan, growing by 2.23-fold.

During the past decade, our region began to open to the outside world, and managed to develop rapidly in this direction. Our region's export volume was only \$17 million in 1980. However, it managed to establish trading, economic, and technological cooperative ties with more than 50 countries and regions in 1990, and its export volume grew by 18.7-fold to \$335 million. During the past decade, the region utilized over \$280 million in foreign capital, and set up 35 enterprises in various forms that belonged to the three types of enterprises wholly or partially owned by foreigners. Lateral economic ties also expanded constantly, as the region fostered technical cooperation with 29 provinces, municipalities, and autonomous regions in the nation, as well as 19 ministries and commissions (companies) under the central authorities.

The past decade also saw increasingly flourishing market activity and remarkable improvements in the people's living standards. Regional income was only 4.604 billion yuan in 1980, but it grew to 20.495 billion in 1990. This represented a 157.59-percent increase, averaging 9.43 percent annually. Retail sales volume of commodities in society was 11.5 billion yuan in 1990, growing by 2.5-fold from 1980 at an annual average rate of 13.4 percent. Consumer indexes (excluding price variations) in urban and rural areas rose by 61.89 percent from 1980 in 1989. The figure is significantly higher than 28 years ago, and represents an average increase of 3.18 percent.

These figures, based on irrefutable facts, indicate our region's successful achievement of its strategic goal in the past decade, as well as profound changes in its political and economic situation.

## FINANCE, BANKING

### Strengthening Financial Levers

91CE0610A Beijing JINRONG SHIBAO in Chinese  
13 May 91 p 3

[Article by Wang Guisheng (3769 6311 3932): "Strengthen the Regulation and Control Capabilities of China's Financial Levers"]

#### [Text] I. The Present Status of Financial Regulation and Control Levers

The present status of China's financial regulation and control levers can be summarized in two phrases: weakening financial levers and a lack of strong financial regulation and control.

**The first weakening:** bank credit is becoming a fiscal matter, and credit levers lack strength. Bank credit is used mainly to satisfy enterprises' reasonable needs for funds for production and operations, but in reality bank credit is squeezed by many things, such as losses, and thus it is hard for credit to play its proper role.

**The second weakening:** bank account settlements are becoming localized, and the methods used are ineffective. Bank account settlements link funds with economic activities, and are also an important means of regulating the economy and managing macroeconomically. Settlements should be based on the principle of safeguarding the legitimate rights and interests of both the creditor and debtor. However, in reality, there are many problems with bank account settlements. One problem is the priority given to settlements on local accounts receivable, while delaying at whim collection on other areas' accounts receivable, or even rejecting payments on such accounts. The second problem is the adoption of local protectionist policies concerning commodity trade, controlling or even prohibiting payment for goods purchased from other localities when the same goods are available locally.

**The third weakening:** the currency prices are distorted, and there is an imbalance in interest-rate levers. Interest rates reflect the relationship between the supply and demand for funds, and are also a strong lever for regulating this supply-and-demand relationship. China has long practiced a policy of keeping interest rates low; enterprises' interest expenditures constitute approximately 5 percent of all expenditures. Last year, to get the market moving, interest rates on deposits and loans were lowered twice. According to estimates, after this was done, interest costs only constituted 3 percent of total costs. On the one hand, distorted currency prices weaken restraints on enterprises, thus stimulating expanded investment, and facilitating a growth in bank credit that exceeds the growth of the economy. On the other hand, the relationship between the interest rate on deposits and the rate on loans is inverted [i.e., interest rates on deposits are higher than those on loans], and this seriously damages the activeness of specialized bank operations.

**The fourth weakening:** financial institutions are diversified, and the financial order is chaotic. Presently, too many

financial institutions have been established, and established too quickly. This, along with incomplete financial laws and regulations and competitive mechanisms, results in indiscriminate warring between financial institutions. The financial disorder provides a hidden protective umbrella for backward enterprises.

#### II. Policies for Strengthening Financial Regulation and Control Levers

1. Strictly manage currency and credit. First of all, due to last year's climate of excess credit and excess supply of money, it is proper to adopt a financial policy of shifting from easing to tightening, and to control the appropriate growth of the currency so as to basically synchronize bank credit and production growth, thereby eliminating the potential for inflation. In addition, it is necessary to hasten the building of financial laws and regulations, and to promulgate at the earliest date such financial laws and regulations as the "Bank Law," the "Bank Account Settlement Law," the "Negotiable Instruments Law," and the "Investment Law." This will change the situation where there is a lack of laws to abide by in financial work, and will gradually systematize financial work and bring it onto the track of being governed by laws and norms.

2. Rationalize interest rate relationships, and change the situation where currency prices are distorted. First, change the long-practiced policy of keeping interest rates low, as well as the situation where present bank interest rates are inverted. Appropriately raise loan interest rates while maintaining interest rates on deposits. At the same time, enterprise interest payments should change from being listed under production costs to being distributed out of profits. In this way interest, together with taxes that substitute for surrendered profits, can become an important means by which the state participates directly in the distribution of enterprise profits. Second, the central bank should make normal interest rates the standard, according to the industrial interest-rate policy formulated based on state industrial policies. It should charge interest rates that are 10 to 30 percent below normal rates when loaning to industries whose development is given priority and promoted by the state. It should charge rates that are 10 to 30 percent above normal rates when loaning to industries whose development is restricted by the state. At the same time, preferential interest rates should be eliminated to change the present situation of the inverse relationship between specialized banks' deposits and interest rates on loans, and to effectively use the role of interest-rate levers in regulating the supply and demand for funds. This will optimize the industrial structure, and improve the cost-effectiveness of fund utilization.

3. Enhance the central bank's macroeconomic regulation and control functions. First, the central bank should change from establishing branches based on administrative districts to establishing them based on economic regions. In large- and medium-sized cities within an economic region, secondary branches of the central bank may be established. The headquarters of the central bank should gradually become directly responsible to the National People's Congress. Second, impose a proper

order on the relationship between the central bank and specialized banks; establish and perfect the reserve deposits, bad-debt reserves, debt ratios, and the statistical reporting and examination systems which the central bank requires specialized banks to maintain. Furthermore, formulate and complete as soon as possible regulations governing financial competition between financial institutions, as well as rules regulating finance based on the principle of "specializing mainly in one industry while overlapping to an appropriate degree with other industries." This will rectify the financial order and develop normalized competition, thereby fundamentally turning around the financial disorder, promoting self-strengthening, and giving greater play to financial levers' role of regulation and control.

### Using Credit To Improve Enterprise Finances

91CE0610B Beijing JINRONG SHIBAO in Chinese  
17 May 91 p 2

[Article by Xu Fuyuan (1776 4395 0337), president of Yichun Prefecture's Bank of Commerce: "Optimize the Increased Credit Funds and Improve Enterprises' Capital Structures"]

[Text] In the last two years, China's improvement and rectification has achieved prominent results, and overall the economy has moved in a good direction. However, because the commodity market is still weak, industrial enterprises have a serious problem with overstocked finished goods and with the resulting tied-up funds. Despite the continued increase in bank credit funds, enterprises' capital structures have not improved. This has led to some difficulties with normal enterprise production.

The main reasons for the lack of improvement in enterprises' capital structure, despite the continued increase in bank credit funds, are:

Both banks and enterprises pursue their own work objectives, with little consideration for each other's economic efficiency. On the one hand, banks have adopted many effective measures for directing and providing credit, such as being flexible with the loan-approval responsibility system and introducing the practices of examining the total amount of loans awarded and repayed, invigorating deposits, and optimizing the increase in credit. However, they give little consideration to how much return they can gain by providing credit to enterprises. On the other hand, instead of endeavouring to improve their capital structure and utilize limited funds so as to achieve the highest cost-effectiveness, enterprises single-mindedly pursue output values. These two situations in fact indicate the dysfunctioning link between banks and enterprises on the issue of fund utilization.

Imbalances in banks' credit structure, together with enterprises' unsound business management, have led to irrational capital structures in enterprises. On the one hand, a loss of control over the aggregate results in structural imbalances, which force us to continue overall expansion; the structurally weak market has been the direct result of such a cycle. On the other hand, because of unsound

business management, some enterprises seriously waste funds, which turns enterprises' nominal profits into real and potential losses.

"Administrative interference" on bank loans, together with the short-term behavior of enterprise contractors, has affected to a certain extent the optimization of increased credit and the improvement of enterprises' capital structures. In daily work, banks are subjected from time to time to administrative interference. They go against their original intention of economic readjustment and provide "administrative loans" in the form of "spot loans," which results in enterprises' irrational capital structures. Since enterprise contracting began, a small number of contractors have looked only at their immediate interests and have proceeded using short-term behavior. They "achieved profits" by increasing funds tied up in finished goods, which lead to a "deceptive swelling" of state assets. Some local governments demand that enterprises accomplish output-value plans that are above the quota. As a result, enterprises double their production and the amount of their finished goods, which leads to occasional economic predicaments.

The problems discussed above are new contradictions that appeared during improvement and rectification. How do we optimize the increased credit funds and improve enterprises' capital structures to ensure that the operating mechanisms of the overall economy move onto a normal track?

First, further improve the quality of cadres handling credit work, and perfect basic credit work. Cadres handling credit work are the decisive factor in the performance of credit work. Branches at all levels should train and select these cadres as if proceeding with the important basic job of credit management. Branches should also establish a set of strict examination mechanisms; do a good job with transmitting, helping, guiding, and training cadres that are newly selected to do credit work; and maintain the stability of these cadres. These cadres should have a revolutionary devotion and a high sense of responsibility, and should not try to advance their own self-interest while working. They should conscientiously adhere to credit policy principles and improve their work style as they make loans and collect payments, so as to provide quality service to enterprises. Enhance credit management and the loan-approval responsibility system; use funds carefully, so as to overcome blind loan issues and ensure the legitimacy, safety, and cost-effectiveness of loans. Perfect the establishment of working accounts for credit work, as well as of loan-approval procedures; establish punishment-and-reward methods for loan awards and payment collections that are based on the "triangular character" of loans. Examine cadres' work performance by establishing complete restraining mechanisms.

Second, make industrial policies the key, and improve enterprises' capital structures by adjusting the credit structure. It is necessary to independently achieve "combining the three together," organically combining the policies favoring industries and products with an enterprise's credit-worthiness; combining the optimization of

increased credit with improvement of enterprises' capital structures; and combining a slanted loan structure with focal support. In terms of fund inputs, we must give key support to developing enterprises involved with energy, transportation, raw and other materials, exporting, or earning foreign exchange, and energetically support the development of name-brand, quality, scarce, new, and special products.

Third, simultaneously optimizing the increase in credit and revitalizing deposits is the key to improving enterprises' capital structures. Optimizing the increase in credit and revitalizing deposits should complement each other. We must seek increases in credit from deposits, and revitalize deposits by optimizing the increased credit. Bank credit departments should use new credit to energetically support production in sectors like agriculture, raw and other materials, energy, and transportation. Departments should also support new high-quality, low-priced, and high-return products that were developed according to demand and that relied on technological progress and readjustment of the product mix. In addition to external factor of banks' credit lever, in order to establish a rational capital structure for enterprises, enterprises must reform internally and adjust their product mix to promote production and marketing and improve economic efficiency.

Fourth, provide quality service to enterprises, and help them improve their capital structure. We must emphasize handling the "five helps" well: First, take the initiative in helping enterprises reduce the amount of funds tied up in finished goods, and energetically support commercial wholesale enterprises in purchasing local industrial products that are in demand so as to increase sales and invigorate final goods. Second, energetically help enterprises clean up their "triangular debts," so as to revitalize funds and speed up fund circulation. Third, help enterprises enhance fund management and understand the idea of "less input, more output," so as to improve economic efficiency. Fourth, help enterprises with technological innovation and product development, so as to enhance market competitiveness. Fifth, help enterprises study marketing strategies, and fully utilize banks' informational advantage, to help enterprises accommodate to the market's ever-changing demand by adjusting their product mix.

### Shanghai Foreign Exchange Market Remains Steady

OW1005181691 Beijing XINHUA in English  
1424 GMT 10 May 91

[Text] Shanghai, May 10 (XINHUA)—The frequent slight readjustment of the official exchange rate of Chinese renminbi (RMB) to [words indistinct] currencies in the past month has affected little to the businesses at the Shanghai Foreign Exchange Regulating Center, the country's largest foreign exchange market.

On Thursday, exactly one month after the central government announced to float upward the exchange rate of U.S. dollar to RMB by 0.95 percent on April 9 this year, the transaction volume at the Shanghai market reached 12.49

million U.S. dollars, which was much higher than the average daily figure that stands at six to seven million U.S. dollars.

During the past month, the central government has floated upward the country's official foreign exchange rate seven times and downward it three times. The variation at each time is slight.

Except the first one on April 9, all the slight readjustments have affected little on the Shanghai market. On April 9, the transaction volume at the market was only 1.25 million U.S. dollars, the lowest figure since the beginning of 1991. However, each of the transaction volumes on the very days of the other nine readjustments was above the average daily figure. The transaction volume for three days during the period even exceeded 15 million dollars each.

On Thursday, the central government announced to float upward the price of one U.S. dollars to RMB by 0.0063 yuan to 5.2998 yuan, but the price of one U.S. dollars to RMB at the Shanghai market increased by merely 0.0030 yuan, 0.0033 yuan lower than the official variation.

The opening selling price per dollar at the market on Thursday was 5.8500 yuan, while the closing selling price was slightly higher to reach 5.8530 yuan. The highest selling price on Thursday reached 5.8550 yuan, while the weighted equalizing price was 5.8541 yuan.

Thursday's buying price for a U.S. dollar was 5.2998 yuan or 0.0908 yuan higher than the rate prior to last month's first official readjustment, which was 5.2090 yuan.

Gong Haocheng, president of the Shanghai branch of the People's Bank of China, said that the frequent slight readjustment of Chinese RMB to foreign currencies has made the official exchange rate gradually approach the market rate. This may pave the way for the country to adopt the floating rate system.

But, an expert from the Shanghai Foreign Exchange Regulating Center said that it is still too early to make such a prediction.

### Jan-Apr Statistics on Credit Balance

HK3005104091 Beijing CEI Database in English  
30 May 91

[Text] Beijing (CEI)—Following is a list of credit balance by region from January to April 1991 released by the State Statistical Bureau:

	(unit: 100 million yuan)			
	Credit Balance	Increase Over Beginning of Year	Loans on Fixed Assets Investment	Increase Over Beginning of Year
Total	15405.12	238.74	2305.64	59.89
Beijing	552.75	0.55	93.97	-0.72
Tianjin	394.04	4.93	56.70	4.80
Hebei	636.05	4.38	78.38	1.38
Shanxi	367.80	10.47	59.98	2.76

			(unit: 100 million yuan)	
	Credit Balance	Increase Over Beginning of Year	Loans on Fixed Assets Investment	Increase Over Beginning of Year
Inner Mongolia	278.55	5.63	33.80	0.68
Liaoning	946.00	16.95	135.36	1.60
Jilin	520.56	13.55	55.72	0.34
Heilongjiang	691.36	39.67	74.96	2.85
Shanghai	831.52	26.77	127.16	5.73
Jiangsu	819.47	-3.69	85.44	-0.58
Zhejiang	478.63	-3.11	60.24	0.10
Anhui	406.49	5.69	56.87	0.89
Fujian	321.75	1.69	57.96	1.05
Jiangxi	348.63	9.58	53.08	0.43
Shandong	945.67	9.37	136.00	5.29
Henan	637.52	2.39	82.49	8.81
Hubei	728.11	4.30	103.20	0.57
Hunan	469.82	12.11	54.16	1.42
Guangdong	1306.51	31.40	160.36	-2.61
Guangxi	285.96	7.76	57.21	0.38
Hainan	124.18	4.28	22.37	0.82
Sichuan	784.63	12.87	117.71	5.66
Guizhou	172.51	-0.57	34.71	1.00
Yunnan	243.62	-7.52	37.47	-0.06
Tibet	16.20	-0.47	0.34	-0.06
Shaanxi	393.52	7.81	73.33	1.24
Gansu	206.85	4.71	45.00	1.80
Qinghai	72.51	0.29	23.05	0.23
Ningxia	69.36	-0.18	17.76	0.04
Xinjiang	231.71	-2.63	45.46	0.06

## INDUSTRY

### Economic Journal Views Textile Exports

HK0205080091 Beijing JINGJI GUANLI in Chinese  
No 3, 5 Mar 91 pp 36-41

[Article by Xu Xihe (1776 1825 0735), edited by Shen Zhiyu (3088 1807 3342): "A Study of the Basic Situation of China's Textile Exports in the Present Stage"]

[Text] Regarding the world economic situation in the 1990's, current estimates from various quarters are as follows: The general trend will still be a rising one of which the annual growth rate of developed countries will be around 3 percent while the annual growth rate of the developing countries will be over 5 percent. Relevant data show that each rise of 1 percent in the world's economy can cause an expansion of 1.5 percent in the world's textile trade volume. This is to say that, seen from the large

environment of world economy and trade, in the 1990's, China's textile exports will encounter a correspondingly thriving market whose volume can expand by over 3 percent annually.

But the problem is: Expansion in the overall volume of the world market does not imply that we can fill the newly increased portion in accordance with the original market ratio. Whether or not we can continue to expand textile exports is principally determined by our ability to compete. In the early part of the 1980's, our textile products precisely depended on our own competitive strength to rapidly expand our holding rate in the international market. However, when the competitive strength of a country's textile products is weakened, what is important is not how to fill the newly increased portion but how to maintain the original market. From the following analysis we shall see that this is precisely the situation China's textile exports will face in the 1990's. Hence, it is necessary to briefly analyze the motive force of the high-speed growth of China's textile products in the 1980's, the ability to expand thus formed, and a series of complicated and complex contradictions.

### I. Basic Causes of High Growth of our in 1980's Textile Exports

In the 1980's our country's textile exports achieved a large scale growth. At that time, there were at least two important factors providing certain opportunities for our textile products to edge into the international market.

First, the industrial structural readjustment of Asia's newly rising industrial countries and regions. In the 1970's, Asia's "four small dragons," using the opportunity offered by the developed countries engaging in industrial structural readjustment and under the conditions of insufficient resources, almost entirely depended on imported raw materials to edge into the world's textile market, occupying a considerable portion in the regions of primary and medium-grade products. In the middle period of the 1980's, following the growth to maturity of the electronics, machine-building, chemical, and motor car manufacturing industries in these countries and regions, the competitive superiority of textile primary processing products was obviously weakened and a hidden vacuum appeared in the international textiles market.

Second, in the initial period of the 1980's our country's domestic textiles market lacked the strength to grow and the already inflated production capacity, as well as surplus cotton production, pushed our textile products in to going to the world market. Speaking in another context, without the large-scale growth in cotton production at the time there would not have been the rapid growth in our textile exports in the 1980's. From 1983 to 1988, the average annual growth rate in textile exports was 16.7 percent, an increase of 7 percent over the average annual growth rate in the first three years of the 1980's. Of this, the growth in the export of yarn far exceeded the growth in the export of completed fibre products. If the period from 1981 to 1986 is taken for comparison, gross exports of textile products increased by 62 percent whereas the increase in primary-grade yarn products was 212 percent. In 1983 and 1984, the quantity of cotton supply ceeding demand was 30 million and 60 million dan respectively. Computed at the state's exchange rate for the year concerned, from 1984 to 1987,

the average price of each kilogram of domestically produced mixed cotton, compared with the average listed price of cotton in the international market for the same period, was 72, 87, 86.5, and 64 percent respectively. This fully explains why during this period the main supporting factor for the growth in our country's textile exports was the strong point of resources and, particularly, the strong point of price.

The strong point of the price of domestically produced cotton has performed a dual function in pushing forward our country's textile exports. Based on this strong point, our country has taken only a few years to replace Asia's "four small dragons" as the world's largest cotton yarn exporting country. On the other hand, it has raised the export comparative effects of cotton yarn, cotton-knitted goods, and cotton goods, making them the principal profit-making products in textile exports. When the disparity between the domestic and international cotton prices reached its highest, the comparative export benefits were the highest and the export volume was also the greatest. This was the basic reason China's 1987 export volume of cotton yarn reached its highest point (261,000 tons). At the same time, the attraction of high export benefits through the disparity between the two prices led to large quantities of cotton yarn and cotton knitted goods being rushing on the international market, the rise in the domestic prices of cotton yarn and cotton knitted products, and, further, to the drastic expansion in the production capacity of cotton yarn. Conversely, a pulling force was exerted on the domestic price of cotton, attracting a series of contradictions in the textile economy. When the various localities and many industries and trades all strived for the various benefits brought by the disparity in the two cotton prices, the social concerted force formed attracted the renewed combination and changes in the various economic factors and soon made these various benefits disappear.

## II. Changes in Textile Exports Strong Points

During the high growth period for textile exports in the 1980's, production costs for exporting our textiles showed the following three changes:

First, the domestic cotton price was approaching the international cotton price. During the past two years, the drastic expansion in textile production capacity caused a sharp rise in the cotton price. In 1989, the domestic factory inward purchase price of cotton averaged 300 yuan per dan. After new cotton was available on the market in October 1990 the average supply price of mixed cotton amounted to 350 yuan a dan. Computed according to the state's exchange rate, each kilogram amounted to around \$1.49, equal to 90 to 94 percent of the international cotton price. This meant that the days of our textile industry depending on the strong point of cotton price had approached the end.

Second, an obvious wakening in the strong points or salaries, wages, and production costs in the textile industry. Statistics published by certain world economic organs have a tendency to compute hourly wages of China's textile workers on the low side. This is because the

income of China's staff members and workers, particularly in units owned by the whole people, does not include such expenses as medicare, housing and welfare benefits. In addition, because our country has not yet formed a rational circulation mechanism for labor force, in certain second- and third- line enterprises overstaffing is very prevalent and, even under the conditions of a parallel level in wages, the embodiment of wages in a unitary product of our country can obviously be higher than that of other countries. For these reasons it is difficult to make a lateral comparison between the wages and production costs of our textile industry and other countries. But seen from a vertical comparison, the increases in wages and production costs in the textile industry have been extremely rapid. It can be seen from the following table (Table 1) that in the years 1980 to 1989 the proportion of the net output value of the textile industry in the gross output value dropped by 6.75 percent, showing that the appendix value created by the textile industry was lowered. Simultaneously, the proportion occupied by wages in the net output value went up by 120 percent. If we take into consideration the outlay of expenses for housing, medicare, and so forth, then the ratio of labor expenses in the net output value was much higher than the present figures. This shows that the strong point of our textiles industry paying low wages has been weakened to a considerable extent.

**Table 1: Proportionate Relationship Between Output Value and Textile Industry Wages**

Item	1980	1985	1986	1987	1988
	(percent)				
proportion of net output value in gross output value	30.7	25.9	25.7	24.1	24.6
proportion of gross wages in net output value	14.6	24.5	28.1	30.1	32.4
proportion of gross wages in gross output value	4.7	6.3	7.2	7.3	8.0

Third, lowering the comparative effects in the textile industry because of changes in the exchange rate. For the sake of stimulating textile export in the 1980's, our country enforced the policies of industrial enterprises making a percentile retention of foreign exchange and allowing volume regulation and adjustment based on the disparity rate of double exchange rates. This caused industries and foreign trade enterprises to actually use the regulation and adjustment exchange rate to compute their export benefits. When the production costs of products are lower than the regulation and adjustment exchange rate, the products will yield profits; otherwise, they will incur losses. In 1990, despite the fact that the state's exchange rate was readjusted to 4.7 yuan=\$1, because the regulation and adjustment exchange rate rose from 6.5 to 6.7 yuan \$1 in the first half of 1989 to 6 yuan = \$1, a portion of the production costs of textile products suffered from a rise in the cost of production and there was a lowering of comparative benefits.

### III. South Asian and ASEAN Countries became Principal Competitive Opponents To Textile Exports

In recent years, countries in South Asia and ASEAN utilizing the opportunity offered by a new round of economic structural readjustments in the world, have vigorously developed the textile industry and are now rapidly becoming major countries and regions in the textile export trade. Indonesia's 1988 textile exports yielded an annual growth rate of nearly 40 percent and it is anticipated that by 1995, the volume of textile exports will increase from the present \$1.9 billion to around \$4 billion. In the second half of the 1980's Thailand's exports increased by nearly 300 percent and its plan is that by 1994, its garment exports will double the present annual volume of \$2.1 billion to exceed \$4 billion. In the five years before 1989, the increase in Pakistan's cotton yarn exports had already exceeded 300 percent. As for countries like the Philippines, Bangladesh, Sri Lanka, and Malaysia, they have exerted, or are exerting, utmost efforts to develop textile exports. All these countries possess great potential for increasing textile production and export growth.

Seen as a whole, countries in South Asia and ASEAN are changing the world textile pattern with a textile exports growth speed far exceeding that of the world. There is a great possibility that they will replace the "four small dragons" in the 1990's and become the main centralized area in the textile exports trade in the Asian-Pacific region.

These countries have a common special feature in their textile exports in that the strong points of their exports are basically centralized in the medium-and low-grade product market, very much similar to the structure of our textile exports products. Furthermore, the principal markets for these countries, textile exports are basically the same as those of our country, mainly Hong Kong, Japan, and the United States.

From an analysis of the above mentioned conditions, in the 1990's, the principal competing opponents to our country's textile exports will no longer be Asia's "four small dragons" but these late comer countries with their newly rising textile industries. Asia's "four small dragons," who ruled supreme in textile exports for 20 years or more, have been experiencing a depressed period in textile exports. Changes in their industrial structures have caused them to shift their competition target principally to the new market for textile products which are capital and technology intensive. The rise of South Asian and ASEAN countries will pose a serious threat to our country's textile exports.

For example, in 1989, Pakistan had already replaced our country as first among the world's textile exports countries and, in 1990, its growth trend was not deterred. In comparison, our country's export ability in textile products has shown a tendency to decline. It is anticipated that in the foreseeable future our country's holding or occupying rate in the market for primary-grade textile products will further decline. If this anticipation becomes a reality then, so far as our country is concerned, the dire effects will be felt not only by the market for primary-grade products but also by the whole textile export system.

The reasons are: The principal cause of the fall in the proportion occupied by the export volume of our country's cotton yarn, aside from the extending the chain in the processing industry after export, is the fall in the comparative benefits of cotton yarn exports. As the first link in the processing chain series, reduction in the benefits from cotton yarn exports constitutes a threat to the entire textile export structure. This is because when the benefits of cotton yarn exports are comparatively high the intermediate products and end products using cotton yarn as raw materials can, to a definite degree, share these benefits. But, in the event of the loss of these comparative benefits, the intermediate products and end products can compete in the market by sheer reliance on the condition of their own labor force production costs and on the quality, style, and delivery date of the products.

### IV. Judging Current Textile Exports Situation

As a result of the rise in the price of raw materials and the weakening of the strong point of wages, our country's textile industry, starting from the primary-grade products, has shown a drop in export comparative benefits. As the initial link in the series of the processing chain, a drop in the comparative benefits of the primary grade products will cause structural changes in the whole range of textile export products, manifested in the obvious extension of processing intensity and in the growth of the export volume having to principally rely on extending the processing intensity for realization. This sort of extension is materialized through the exporting enterprises taking the road of seeking maximum export benefits. At a time when among the various production links or stages the relative benefits of exports of primary-grade products are at a maximum, exporting concerns are inclined to export more primary-grade products and, at the same time, prevent the later or subsequent processing procedures from excessively sharing in the high export benefits of the primary-grade products. By so doing, in the export composition, there will appear the phenomenon of an enlargement of the proportion of primary-grade products and a drop in the proportion occupied by products from the later or subsequent processing (particularly end products) in the gross exports. When the comparative benefits of exports of primary-grade products decline, or even suffer from a loss in exports, exporting enterprises will be inclined to export fewer primary-grade products, pushing the extension of the processing chain and relying on many processing procedures to absorb, digest, and gradually compensate for the reduction in the comparative benefits of the primary-grade products. In the course of the extension of the processing procedure, at whatever point the export benefits are at a maximum, the proportion of the exports of the product at that point will be speedily enlarged with the result that, in the gross export structure, the proportion of primary-grade products drops while the proportion of the product which produces the maximum profits in the intensified processing will be speedily enlarged. For example, in 1987, when the export benefits from cotton yarn were at a maximum, the proportion of garment exports dropped to the lowest point; in that year, the increase in the export volume of garments was \$834 million, the increase in the

gross volume of textile exports was \$2.404 billion and, of the gross volume increase, the proportion of garments was 34.7 percent. In 1988, this ratio went up to 63 percent; in 1989, to 70.12 percent; and from January to May 1990, the proportion of the increase in garments exports of the gross volume of increase of textile exports, has already exceeded 100 percent—because the volume of the export increase, after offsetting the portion due to minor declines in other categories of textile exports, already constituted the whole portion of the increased volume of textile exports.

Undoubtedly, we should fully agree that the daily increase in the ratio of garment exports to gross exports is a manifestation of the extension in processing intensity. Since 1988, under the conditions of the difficulty of relying on quantitative increases to expand textile exports, it has been precisely this enhancement from this sort of processing appended value which supported the export growth rate of 16.1 percent in 1989. But it must also be noted that our country's garment exports were a sort of intensified processing of the quantitative and resource patterns within the export framework. It relied on a quantitative increase in garment export volume and not on an increase in the garment selling price. From 1987 to 1989, our country's foreign exchange earnings from exporting each ton of garments were respectively \$9453, \$9593, and \$9793; each the increase in the per-ton price was only 1.7 percent. As for the tonnage of garment exports, this rose from 39.7 tons in 1987, to 62.6 tons in 1989, and annual increase of 25.6 percent. This was close to the annual increase of 27.8 percent in gross export value. But the question is: Regarding this stateof affairs of pushing the growth of textile exports through extending the processing procedure without changing the entire export structure, can this be maintained for long? In my opinion, even without considering the factor of a possible rise in production cost in the garment industry itself, such a growth can be maintained at most for only a few years.

Nevertheless, we must give full regard to the garment production cost factor. Textile exports being shifted further onto garments in the processing line was caused by the drop in the comparative benefits of the earlier processing procedure. That garment exports could produce profit under the conditions of the rise in the production costs in the preceding states of processing was principally due to the garment industry wage level being far lower than the average wage level. In 1988, the average annual wages of employees and workers in our garment industry were 1326 yuan, being only 78 percent of the average wages of employees and workers in the textile industry (garments included) and was only 74.4 percent of the average wages of employees and workers in industry in the whole country. Obviously the rise in production costs in the earlier stages of the processing procedure was compensated by the strong point in the low wages of garments industry.

From this it can be seen that the further shift in the structural character of exports appearing since 1987 showed that, in international competition, our country's fibre products have taken the low wages of the garment industry as the last line of defense and that when and as the comparative benefits of the products in the earlier stages of

the processing procedure further decline and this line of defense collapses, then the exports of the whole textile industry will begin to decline. And this is our initial conclusion—that textile exports are currently facing a crisis; we must make a choice between the two alternatives of making large amounts of export subsidies or effecting a transformation of the export structure.

In reality, this crisis has been lurking for two years. The drop in the proportion and absolute quantity of our cotton yarn exports was an early sign of this lurking crisis. After 1987 the export volume of our country's two types of yarns having reached their highest point, in 1988 and 1989 the export volume was reduced by 37,000 tons and 54,000 tons respectively, while the proportion of the international market also dropped from 1986's 22.3 percent to around 18 percent in 1988. In respect to the phenomenon of our country's primary products having suffered a setback in the market, economic circles in the country have regarded it from varying angles. Some comrades, noticing the quality problems revealed in recent years, advocated that improving the quality of products would be the key to rectifying the state of the decline in exports. Although this view did embody certain correct factors, it disregarded the more critical factor of production costs—no country, under the conditions of production costs constantly rising, could depend on improving the quality alone to recover the market for textile's primary-grade products. Other comrades saw the development of intensified processing and believed that reduction in the primary-grade products should be ascribed to the state having effected an appropriate control, being a good phenomenon for the rise in the appended value of exports. They overlooked another side of the shift backward in the textile exports, structure—that our country has begun a steady declines, or retreat, from the initially processed products market.

In the 1960's, when Japan fell from its position as the premier export country for cotton textile products, and other manufactured fibre products, the gross export volume of its other domestic industries began to exceed that of textile products. Machinery and electrical products reversed their status from net imports to net exports—an indication of the textile industry having fulfilled its mission of using net foreign exchange earnings to support the technical transformation of the country's entire manufacturing industry. Since the mid-1980's, the export capacity of South Korea's entire textile products was obviously weakened. But in 1987, when the growth of its textile exports obviously slowed down, its electronics products had already taken up the export position of its textile products and, from that year, South Korea has become a country with a favorable balance of trade. Compared with Japan and South Korea, our country's situation is entirely different. At present, the development of our country's electrical machinery industry is still in the stage of large-scale imports and introduction of equipment and technology and, in the foreseeable five years; electronics and machine-making products can hardly become main export product replacements. The textile industry has not yet fulfilled its historical mission of using export foreign exchange earnings to support the rise and promotion of the

country's entire industry. The stagnation, or depression, in textile exports in this period will lead to stagnated growth in the whole country's gross exports. Therefore, the textile industry cannot, and has no right, to lay aside its historical heavy mission too early.

#### **V. Basic Road To Shake Off the Crisis Is Reform of the Foreign Trade Structure**

Seen from the road of development of other industrial countries, the textile industry has nearly completed the process of the production costs changing from high to low and reverting to a rise. In the initial development, due to both the production technique and economic scale not having achieved development maturity, production costs in the textile industry are generally at a relatively high level; when textile production and technology have daily become mature and the export volume has increased on a large scale, the textile industry will have entered the stage of growth maturity. At this time, a stage of progressive reduction in marginal production costs will appear, that is, the additional expenses in production required for increasing a unit of production volume will be lower than the average production costs for maintaining the original production scale. Therefore such special features will appear in development as an increase in production volume, a drop in average production costs, an increase in export comparative benefits, and the export volume reaching, or nearing, the maximum. After straddling the development maturity stage, the textile industry will begin to enter the stage of a progressive increase in marginal production costs. As a result of the production costs, price for the bulk of the export products becoming increasingly near to, or even exceeding, the selling price in the international market, a portion of the enterprises will be forced to withdraw from the international market, the gross export volume will begin to be reduced, and textile exports will be in a state of depression. Despite the fact that there are great differences in the direct causes leading to the decline of textile exports of different countries and regions, such as the too sharp rise in salary and wage expenses and in land prices (as in Japan and Taiwan), the rise in a country's currency value compared with the currencies of other countries (such as in South Korea), and so forth, the causes may all be ascribed to the progressive increase in the marginal production costs and the lowering of the export comparative benefits resulting therefrom. It can be seen from the changes in the cost of foreign exchange earnings from our country's textile export that, in the 1980's, production in our textile industry passed through the sectional transformation from the progressive reduction in marginal costs to progressive increase in marginal costs. In the 1960's and 1970's, the cost of foreign exchange earnings for our country's textile products was always in the range of changes of 2.5 yuan to 6 yuan; from 1979 to the mid-1980's, despite the supply prices of textile raw materials, such as raw cotton, being far higher than in the 1970's, the textile industry displayed the pleasing situation of a rapid expansion in production capacity, an obvious increase in export volume, and a large-scale fall in the cost of foreign exchange earnings; from 1980 to 1984, the yearly cost of foreign exchange earnings by textile products

was respectively 2.89, 3.05, 3.33 3.47, and 3.03 yuan, obviously lower than the mid-1970's. In the late 1980's, the cost of foreign exchange earnings by textile products rose annually. Take, for example, the case of the Tianjin City Textile Alliance Company which was in the medium level of export trade operations: In 1986, the cost of foreign exchange earnings was 4.09 yuan and, in 1989, went up to 5.55 yuan; in 1990, the cost of foreign exchange earnings began to exceed the regulation and adjustment exchange rate and, in July of that year, reached 6.9 yuan. This condition represented the approximate situation of changes in the cost of foreign exchange earnings of textile products exports for the whole country. At present, the cost of foreign exchange earnings is still continuing to rise. This shows that the production sector is in the stage of the progressive increase in marginal costs. The so-called progressive increase in marginal costs refers to cost expenses for volume-increase always being higher than the average cost expenses. If we look at it from another angle, and do not consider the volume-increase factors of the export production volume, then the production costs of the end production until will always be higher than the average cost expenses. Hence, only through reducing the gross export production volume can there be a reduction in marginal costs and then in the average costs. Contrary to this, our country's textile exports are built on the basis of the quantitative increase type—increase in the export amount of money takes the increase in the export quantity as the precondition. But in the stage of the progressive increase in marginal costs, increase in the export volume must pay the price of a further rise in the average production costs, thus falling into the vicious cycle of export increase—increase in loss and deficit—increase in subsidy. This is precisely the basic cause of the worsening textile exports situation. To get out of this cycle and concurrently look after economic benefits and growth in exports, we can only, together with reducing export volume, realize the increase in the export amount in terms of money. This is to say we must change the traditional export structure of being centered in popular goods of dependable quality and in medium- and low-grade products and raise the added value of the export products.

For many years we have always advocated intensifying processing, increasing the added value of products, and increasing the technical embodiment of export products. Each year we spent over \$1 billion importing technology and equipment but always failed to change the special features of quantitative type export increases. One of the important reasons for this was that our country's current textile export mechanism is not suited to the demands of upgrading and changing textile products. Besides, the production enterprises are basically isolated from the product importing country's market and cannot form a channel between the market and production for the quick dissemination of news and information. In the international textile market, our country is far behind in establishing our own operations and sales network. Due to lack of understanding of the country to which the products are exported, the opening up of products and technical transformation of the enterprises lack adequate direction,

making it extremely difficult to effect the upgrading and changing of export products. With such a textile export mechanism, when principally large quantities of medium-grade and low-grade products are exported, the defects are not very clear but, when it is difficult to maintain the quantitative-increase type of export and the development of the textile products must follow the directions of small quantities and large added value, then its inadequacy is daily more clearly revealed. If our country's textile export mechanism is not reformed, then the mission of upgrading and changing products cannot be fulfilled and we shall become helpless when there is a depression in textile exports. Hence, it is proposed that, with due consideration to changing the segregated state between our enterprises and the international market and pushing forward the central problem of making the enterprises proceed along the road of international operation, we conduct a coordinated study on the reform of the textile export mechanism.

Currently, we can investigate the following several options:

1. Readjusting the organizational structure of textile exporting enterprises, taking the establishment of a number of export enterprise groups as the breakthrough objective and probing into the enterprises' internationalized operations.

In recent years, in order to solve such problems as the specialized trading companies and the production enterprises being mutually segregated and the production enterprises lacking an understanding of the international market, in the foreign trade structure certain reforms of an investigative nature have been instituted such as: Textile industry departments organizing a number of local textile alliance companies in which industry and trade are integrated but with industry serving as the principal factor; giving a portion of the export producing enterprises the power to run their own export trade; piloting, in Shanghai, the whole industry and trade export agency system, and so forth. These probing reforms have played a definite role in promoting the enterprises' understanding of the international market and pushing the export of products from intensified processing. At the same time, a series of new problems has emerged. Principal among these was that the individual enterprises given the power to run their own export projects did not have sufficient financial power, material power, and manpower to operate in the international market. The majority of them sat idly awaiting customers to come to their doors. Strength was divided, between the enterprises and each fought its own battle, unable to take part in the competition to open up the international market. Among the local textile alliance companies, some could not integrate closely with the production enterprises to form common bodies and, seen as a whole, both the operational scale and competitive strength were not up to expectations. These conditions indicate that it is necessary to further readjust the organizational textile export structure and, principally, to solve the problems of the enterprises' small operational scale and their loose integration of production and export operations. A relatively ideal way is to establish a number of super-large industry trade integrated enterprise groups, take them as the backbone framework for the textile export

organization and form a secure enterprise organizational structure in which monopoly and competition coexist. Due to structural restrictions, it still requires a rather long time to investigate the road to integration of industry and trade. At present, a relatively mature method is to further readjust the organizational structure of enterprises engaging in self-exporting industrial products. It is recommended that in localities with the mature conditions, a lateral association of self-exporting enterprises is organized to push the enterprises to develop in the direction of forming export groups. This kind of association should preferably be of a close, or tightly-bound, type. Inside the group, unification of the power of running export and production operations should be enforced to achieve rationalization of the export operational scale. The export group should embrace production enterprises in garments and other end products and should, through internationalized operations, raise the selling prices of the end products and lead the promotion, upgrading, and changes to the products inside the group. If, in the textile industry's bases along the coast as well as inland, we organize a number of such export enterprise groups the grades of the textile export products will naturally be enhanced to a considerable extent.

2. Inside the textile industry, macroeconomic control, coordination, and regulation should be strengthened and a nationwide news and information network should be set up to render good service to the export enterprises.

At present, inside the textile industry, the control, coordination, and regulation of, and rendering of services, industrial export enterprises are rather weak links. Between the export enterprises and the control departments over the industry or trade there is lack of effective communication and collaboration. It is necessary to consider anew the formation of a controlling, coordinating, and regulating structure over textile exports. On the basis of fully displaying the functions of a textile trade promotional organ, we should establish a textile industry export control department similar to the form of the Hong Kong Trade Development Council so as to strengthen the functions of coordination, regulation, and servicing in industry and trade control. The functions principally include:

- Establishing a registration system for industrial export enterprises; storing up and conserving relatively detailed material concerning export products of industrial enterprises and export business conditions to help domestic and foreign merchandising agents find suitable production plants and to provide guidance in operation to export enterprises of the same category of products to avoid excessive competition.
- Setting up an export products information center, on the one hand associated with the overseas markets and on the other associated with the domestic enterprises, providing information on the external sales markets for textile products, helping them to find foreign sales opportunities, and furnishing advisory and informatory material to enterprises in respect of export of products and investments abroad.
- Studying movements in the international textile trade, to suitably promote structural readjustment of export

products and promulgating and readjusting the export policy for industrial enterprises according to the changes in internal and external conditions.

3. Reform and improving the textile export quota distribution system, establishing a mechanism for competition in equality in the export of textile products, and starting from instituting partial auctioning of quotas to a gradual transition to wholesale auctioning of quotas to accomplish the true allocation to the fittest in export quota allocation, thus enhancing the comprehensive economic benefits of textile exports.

### **Liaoning To Build Hi-Tech Belt Along Shenda Highway**

OW2906072491 Beijing XINHUA in English  
0633 GMT 29 Jun 91

[Text] Shenyang, June 29 (XINHUA)—The government of northeast China's Liaoning Province has decided to build a hi-tech belt along the Shenda Highway linking the province's two big industrial cities—Shenyang and Dalian.

This was disclosed by Deputy Governor Lin Sheng at a meeting held on the development of hi-tech industry.

The newly-designed hi-tech belt, the largest ever of its kind in the country, will include Shenyang, Dalian, Anshan, Liaoyang and Yingkou Cities and their nearby counties.

The construction of the giant hi-tech zone is aimed at taking advantage of the existing technological and industrial strength in the area.

According to Lin, all kinds of hi-tech enterprises will be allowed to enter the zone, which will enjoy all the preferential policies offered by the central government to hi-tech zones.

The zone will emphasize telecommunications, energy-saving technologies and equipment, new materials, robots, fine chemical products and biological engineering.

During the Eighth Five-Year Plan period (1991-1995), the newly-settled hi-tech region is to be set up based on 40 projects to develop 100 new hi-tech products with a total investment of 450 million yuan and a yearly industrial output of 2.58 billion yuan.

### **Iron, Steel Industry Imports Technology**

OW2306075191 Beijing XINHUA in English 0731  
GMT 23 Jun 91

[Text] Beijing, June 23 (XINHUA)—In order to transform and expand existing iron and steel, China has imported more than 650 items of advanced technology from foreign countries, according to the overseas edition of today's PEOPLE'S DAILY.

The production of steel in 1990 reached 66 million tons as against 31 million tons in 1978. The output increased at an average rate of three million tons a year during the period of the Seventh Five-Year Plan.

Chinese steel enterprises developed 86 new products in the period.

The Ministry of Metallurgical Industry urged the steel enterprises to rely on their own strength to upgrade themselves while importing more advanced technology and equipment to further raise their production level during the Eighth Five-Year Plan period.

### **Building Materials Industry Improving**

HK2506022991 Beijing CHINA DAILY in English  
25 Jun 91 p 2

[By staff reporter]

[Text] The latest round of statistics on some major industrial products and raw materials point to a further recovery in the Chinese economy.

The production of glass, cement and mechanical-electrical products is bouncing back and orders are increasing, according to figures from the State Administration of Building Materials Industry.

Figures show that the production of glass indicates a strong recovery which is expected to continue on into the second half of this year.

For instance, glass makers plan to supply 422 million tons in the next half of this year, of which 385 million tons have already been ordered.

However, economists said that the on-going price wars among the country's glass makers threatened to drive the glass-making industry into financial trouble.

Statistics on cement production sound more encouraging as the government is pumping millions of yuan into capital construction.

Figures reveal that orders for cement have already swelled to 12.66 million tons, almost reaching the government's supply capacity of 13.38 million tons for this year.

Economists said that most of the order were placed by the coastal provinces and cities.

Meanwhile, officials from the Ministry of Materials and Equipment forecast a strong demand in the next half of this year for agricultural machinery and construction vehicles.

Officials said that as the central government relaxed its grip over public spending on consumer goods, sales of camera and air conditioners are expected to jump in the near future.

### **Statistics Bureau Issues May Chemical Output Figures**

HK1406115091 Beijing CEI Database in English  
14 Jun 91

[Text] Beijing (CEI)—Following is a list of the output of main chemical products in May 1991, released by the China State Statistical Bureau:

Item	Unit	5/91	5/90
Chemical fiber	10,000 T	16.45	14.33
Sulphuric acid	10,000 T	118.13	103.80

Item	Unit	5/91	5/90
Dense nitric acid	10,000 T	2.99	2.91
Soda ash	10,000 T	32.28	31.54
Caustic soda	10,000 T	32.04	32.81
Ethylene	10,000 T	15.63	13.91
Calcium chloride	10,000 T	21.08	21.27
Pure benzene	10,000 T	6.10	4.84
Synthetic ammonia	10,000 T	183.76	190.18
Fertilizer	10,000 T	174.44	176.50
Of: Nitrogen	10,000 T	126.30	134.87
Phosphorous	10,000 T	46.83	40.75
Potash	10,000 T	1.26	0.89
Chemical pesticide	10,000 T	2.91	2.33
Paint	10,000 T	8.68	8.09
Dyestuff	10,000 T	1.33	1.22
Pharmaceuticals	10,000 T	1.77	1.62
Chinese patent medicines	10,000 T	2.35	2.16
Tyre	10,000 Pc	361.06	302.65
Synthetic rubber	10,000 T	3.04	3.17
Film	10,000 M	1537	1000
Color film	10,000 M	1480	1000
Plastics	10,000 T	23.68	19.01

Notes: M—Meters, T—Tons, PC—Piece

### Baoshan Steel Manufacturer in Second Phase

OW2906074891 Beijing XINHUA in English  
0729 GMT 29 Jun 91

[Text] Shanghai, June 29 (XINHUA)—The second-phase project of Shanghai's Baoshan Iron and Steel Complex went into pilot operation this morning, marked by the ignition of its second-biggest blast furnace.

China has poured a total of 17 billion yuan (about 3.2 billion U.S. dollars) into the project, namely the second iron-making system of the complex.

The blast furnace is the first supergiant developed by China. It cost 1.12 billion yuan (about 210 million U.S. dollars).

The second-phase project, with most of its equipment supplied domestically, is more advanced in terms of equipment and technology than the first one that had 88 percent of its equipment imported.

The entire project includes a cold-rolling shop, a hot-rolling shop, a continuous casting shop, a blast furnace, and a large sintering section.

And the project also has four coking burners with a yearly output capacity of 1,700,000 tons each.

According to the design, the total output of iron and steel of the complex will be doubled once the second phase goes into full operation.

### Textile Industry Moves To Improve Product Quality

HK3006034691 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 30 Jun 91 p 3

[By staff reporter An Weihong]

[Text] The quality of textile products showed a great improvement this year thanks to painstaking efforts made by the industry, which has been trying to weather the unfavourable economic conditions.

According to statistics provided by the production department of the Ministry of Textiles, the quality of 15 out of 17 major textile items was improved in April.

The percentage of the items whose quality have seen a steady improvement from January to April was 88.2 percent, an increase of 20 percent on the figure of the same period of last year.

Also, from January to April, 10 out of 12 major textile products for export met their qualification standards by 80 percent. Three items—cotton clothing, bed sheets and worsted woollen fabrics—met their qualification standards by 90 percent.

The quality improvement resulted largely from the continuing campaign launched by the ministry last year which aimed to bring all of the products up to established standards, according to a report from the ministry.

Specific measures have been taken this year to reduce yarn faults, colour deviation, and washing shrinkage among other faults—five major problems undermine the export production of cotton fabrics, printed and dyed cloth and knitted goods, the report says.

The ministry had also organized various kinds of product exhibitions this year in Shanghai and Beijing in which manufacturers were given frank opinions by customers and experts on the quality and style of their products.

The ministry has also reinforced requirements for machine operators in the manufacturing sectors of woollen fabrics, knitted products and garments as well as cotton, polyester and silk fabrics.

Competitions were and will be held among the operators to reward good quality production and punish the bad.

In the management of machines and equipment, the ministry is also drafting standards for machine maintenance workers to guarantee quality production in this sector, the report says.

In contrast to the improved product quality, the economic situation of the industry has been worsening in general this year with a growing number of mills and manufacturers in the red, the report says.

The percentage of the enterprises operating in losses in the first quarter of this year was about 45 percent, up by 12 percent over the same period of last year.

From January to April, about 527 enterprises in 39 large and medium-sized cities reported losses, which accounted for almost 40 percent of 1,322 enterprises surveyed. Of these 39 cities, there were 19 cities in which the whole industry was suffering from overall economic losses.

It is estimated that the general tax and profit for the whole year will be down 20 and 30 percent respectively on last year.

The price-hiking of raw materials, the stagnation of markets and some unfavourable government policies are blamed for the worsening economic situation in the industry, the report says.

### **Expansion of Chemical Materials Industry Planned**

*HK0707055991 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 7 Jul 91 p 4*

[By staff reporter Zhang Yu'an]

[Text] China is to invest several hundred million yuan in developing 20 new chemical materials projects in the Eight Five-Year Plan Period (1991-95) to boost what is regarded as a promising industry.

Efforts would be focused on developing organic silicon materials, organic fluorine products and high polymers, which were widely used in space and for military purposes, and in the aviation and electronics industries, a senior official of China's only new chemical materials developer told BUSINESS WEEKLY.

Huang Chenghua, vice-president of the China Development Corporation for New Chemical Materials, said that they would strength cooperation, including setting up Sino-foreign joint ventures, with overseas partners to speed up the development.

Currently, he said, the corporation, which is under the direct leadership of the Ministry for the Chemical Industry, was negotiating with a Taiwanese businessman on setting up a joint venture for producing organic silicon products in either Jiangxi Province or Shenzhen City, China's first special economic zone.

About 80 percent of the products would be for export, he added.

Meanwhile, it was also holding talks with a Canadian company on establishing a joint venture in Shanghai's Pudong Development Zone, the country's largest inland development programme.

The venture was designed to process fluorine plastics and produce chemical materials used in the electronics industry.

Plans had also been made to set up a number of new chemicals ventures in the country's major cities, said Huang but he gave no details.

So far, the corporation had built joint ventures with domestic enterprises and research institutes in Harbin, Dalian and Beijing. These were engaged in developing and producing new chemical materials, he said.

China's new chemical materials industry started in the late 1950s to produce that sort of material for national defence.

From then on, the industry had made great contributions to China's national defence, including providing new materials for the country's atomic and hydrogen bombs, he said.

At the moment, there are more than 10,000 kinds of new chemical materials associated with the national defence industry.

Since 1978, when China opened up to the outside world, more and more new chemical materials have been used for civilian purposes, including the fields of electronics, medicine, medical care, metallurgy, textiles, machine-building and light industry, he said.

After the development in the past 10 years, the industry has taken shape as a new industry. Last year, total output value reached 2.4 billion yuan (\$453 million), earning some 900 million yuan (\$169.8 million) in profit, he said.

The corporation studies and produces many kinds of new chemical materials, such as organic silicon materials, organic fluorine products, new adhesives, engineering plastics, special fibres and composites, functional high polymers and special coatings.

### **Article Views 'Overheated' Industrial Production**

*HK2006140391 Beijing JINGJI RIBAO in Chinese 22 May 91 p 2*

[Article by Yan Kalin (7051 0595 2651): "Does Industrial Production Tend To Be Overheated?"]

[Text] Recently, some people in the economic circles have been feeling uneasy about the rapid growth of industrial production in some areas of the country and the sharp increase in the entire social investment. Some think that the overheated tendency in industry has become more obvious. There is another argument that an overheated momentum has emerged.

In the first four months of this year, the industrial growth rates in Guangdong, Zhejiang, and Jiangsu were all around 20 percent, with that of Guangdong reaching as high as 27.4 percent. These provinces have reportedly acted as "pioneers" in the previous rounds of the overheated economy and as an early warning index for an "overheated" economy in the entire country.

It is of paramount importance to analyze and judge whether China's industry tends to be overheated. This will not only affect the direction of some macro and medium-ranged (zhong guan 0022 6034) economic regulation and control policies, but serve as an indispensable foundation for quite a number of industrial and commercial enterprises when making their policy decisions in operations.

In the past, when industrial production was overheated, it was generally manifested in a high, or even extra high,

growth rate, with the total industrial output value usually growing by 15 and even over 20 percent. In 1988 when industrial production was in an "overheated" condition, the growth rate reached as high as 20.7 percent. The result was a serious shortage of energy, raw materials and funds, soaring inflation, a dramatic increase in imports, and a large trade deficit in international payments.

Recently, since the introduction of the "fine tuning" measures for appropriately readjusting the retrenchment strength, the tendency of a sharp drop in China's industrial production has been effectively curbed. The total industrial output value respectively increased by 5 and 14.3 percent in the third and fourth quarters of last year, and 13.2 percent in the first four months of this year. People are gratified at the rapid recovery and steady growth of industrial production. Nonetheless, it is precisely this growth rate of 13.2 percent that has evoked various discussions.

It looks as if the growth rate of 13.2 percent in industrial production is a bit too high, but there are a lot of specific conditions behind it that merit attention. First, the foundation for the increase of industrial production is comparatively weak. The practice of these years shows that only when production is organized in accordance with market demand can production and sales maintain a rational proportion, and the phenomenon of overstock in the course of production can be avoided. But some time ago, the development in production was not in coordination with the rebound in market sales. Last year, China's industrial production increased by 7.4 percent over the previous year, while the total retail sales of social commodities and the sales of production means only increased by 1.9 and 1.7 percent respectively; and in the first few months of this year, the margin of industrial growth still surpassed that of rebound in actual market sales. If production growth exceeds market demand, the former usually finds it difficult to keep on. This is shown as follows: The production tasks in enterprises are inadequate, the relatively conspicuous instance is that production contracts on bulk materials and facilities signed nationwide during the early months of this year only account for approximately 20 percent of the year's total work volume, which represents a big difference from the general level of 60-70 percent in previous years. The stockpiles of products continue to increase, and in the past few months the situation characterized by many factories increasing their stockpiles in the course of production, resulting in the fact that the more the products were turned out, the more they were overstocked, has remained unchanged.

Second, enterprises encounter a number of difficulties in developing production. This is mainly due to a series of contradictions caused by the sluggish sales and excessive stockpiles of products, such as slow turnover of funds, increasing "debt chains", and declining economic results. It is reported that defaulting on debt repayments between enterprises in the entire country has surpassed 200 billion yuan. In the first quarter, the output of industrial enterprises listed in the state plan increased by 11.1 percent as compared with the same period of last year, but the profits

dropped by 42.9 percent, and the proportion of losing enterprises was still as high as 36.1 percent.

Third, the adjustment of product mix is still comparatively slow. Since last year, although attention has been paid by various sectors to optimizing product mix, and some progress has been made, generally speaking not many new products have been put into markets, and supplies of readily marketable commodities have not substantially increased. Those that have increased were largely oversupplied commodities, and the problem of product mix deviating from market demand has not been settled. A short time ago, commercial departments investigated the condition of supply and demand for over 600 kinds of major commodities. Those whose supply exceeded demand accounted for 25 percent, representing another rise over the past.

Besides, the relatively low basic figure of industrial production in the few months of last year has also contributed to a larger margin in industrial growth this year. If this factor is discounted, the actual growth rate of industrial production in recent months is not very high.

As viewed from the above, we should not be overoptimistic about the current industrial situation, and still less say that an overheated momentum has emerged. As regards the high industrial growth rates in Guangdong and other provinces, they are mainly due to the more rapid growth in these provinces of the three kinds of enterprises that are partly or wholly foreign-owned, as well as the township and town enterprises, which by and large conforms to the situation in the entire country. Moreover, it is still necessary to study whether or not the conditions in these provinces can be regarded as an early warning index for an overheated economy.

An analysis of market demand also shows the argument that industrial production has tended to be overheated is open to question. The swelling demand for investment and consumption was the main cause of the past overheated industry. The recent speedy rebound in demand for investment and consumption again worried people and, to some comrades, it has even served as one of the grounds for judging that industrial production has tended to be overheated. As a matter of fact, it is not necessary to worry about that. Although the investment in fixed assets by state-owned units in the first four months of this year rose by 13.8 percent as compared with the same period of last year, it is still normal, according to an analysis by state departments concerned, to have certain restorative growth after the negative growth in the social investment for two consecutive years. According to some estimates, even if the scope of investment reaches 500 billion yuan this year, increasing by 14 percent over last year, the actual volume of investment has not returned to the level of 1988, after adjustment of price rises. In terms of demand for consumption, although banks' payments for wages and markets of consumer goods have grown more rapidly in the past few months, no marked changes have occurred in the essential factors that have restrained residents' consumption activities in the past two years. For some time to come, restrained by the fairly slow increase in peasants'

income, markets in the rural areas will generally remain at the current growth level; urban markets will be mainly affected by tardy adjustment in the consumer goods supply pattern, and an over-booming situation will not appear as long as the anticipated inflation is not artificially intensified, and control over institutional purchasing power is not excessively loosened.

After numerous efforts, China's economic growth has now entered a basically normal stage. To enable industrial production to recycle more smoothly, and maintain an appropriate growth for the economy as a whole, we should still continuously do a good job of activating and opening up new markets, laying particular emphasis on economic structural readjustment, and exerting ourselves to raise economic results. Meanwhile, we should also pay attention to preventing the economy from being overheated once again, and be on the alert against the comeback of inflation. It is not merely because the existing irrational structure is liable to produce a tendency of lopsidedly pursuing speed, the demand of local authorities and departments to develop projects are still very intense, and the vigorous growth of granted loans and the slow process of structural readjustment have also added weight to the pressure of potential inflation. Last year, bank loans increased substantially, and since the beginning of this year, they have kept on increasing. Consequently, it is imperative to maintain the stability and continuity of the macroeconomic policies. However, the work and requirement to take precaution against an overheated economy and the analysis and judgment that an overheated momentum has emerged are two entirely different things, which must not be confused.

#### **Automobile, Farm Machinery Production Increases**

*HK2206025691 Beijing CHINA DAILY in English  
22 Jun 91 p 2*

[Text] Production of automobile and farm machinery increased significantly in the first five months, giving a strong push to the machinery and electronics industry.

Gross output value of the machinery and electronics industry rose 19.7 percent to 114.9 billion yuan (\$22 billion), which was mainly achieved by the automobile and farm machinery producers.

Increased domestic demand for automobiles and farm machines during the period led to production increases of 27.3 percent and 24.5 percent respectively, according to an official with the Ministry of Machinery and Electronics Industry.

In May, the output value of the machinery and electronics industry increased nearly 3 percent over that of April.

The ministry is now promoting the sales of machinery and electronic products in both domestic and foreign markets to ensure a steady and healthy development of the industry, the official added.

Economists, however, warned that the first four months still saw stockpiles worth more than 38 billion yuan (\$7.2 billion), a jump of 14.8 percent on the same period last year.

Machinery valued at about 26.8 billion yuan (\$5.05 billion) was in stock in May, 214 million yuan (\$40.4 million) more than that of April.

Production value in machinery sector topped 727 billion yuan (\$137 billion) during the first five months, an increase of 13.3 percent over the same period in 1990.

The sector had an output value of 16.9 billion yuan in May, 12.2 percent more than in same month last year.

The electronics sector had a total production value of 35.4 billion yuan (\$6.7 billion) during the first five months of this year. The figures represented a 35.5 percent increase on last year.

Production value of computers chalked up a significant rise of 60.8 percent during the first-five months.

#### **SMALL-SCALE ENTERPRISES**

##### **Tianjin Township Enterprises' Exports Soar**

*91CE0582A Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 10 May 91 p 1*

[Report by Zhang Xiaojian (1728 2556 1696): "Tianjin Township Enterprises Increased Their Export Values by 550 Percent in Five Years"]

[Text] Taking full advantage of their proximity to a port, Tianjin Municipality's township enterprises actively engaged in joint ventures with urban industries and foreign trade departments, speeded up their technology imports and technological transformation, and expanded external cooperation. As a result, township enterprises' externally oriented economy developed rather quickly during the Seventh Five-Year Plan. In 1990, all of the municipality's township enterprises together exported goods worth 2.33 billion yuan, an increase of 550 percent over 1985. This represents an average annual progressive increase of over 45 percent. In the last two years of the Seventh Five-Year Plan in particular, when enterprises faced difficulties with foreign-trade exports, the export value increased by around 600 million yuan annually. Thus exports more than doubled in two years, prominently contributing to ensuring that Tianjin Municipality accomplish its export task.

After the development of the Seventh Five-Year Plan, township enterprises that export or earn foreign exchange have acquired a certain scope. Presently, in the entire municipality, there are more than 1,000 externally oriented township enterprises, 651 of which produce for direct export. Township enterprises' output value of direct exports accounted for 9 percent of the rural industrial output value in 1985; this figure has increased to 13.45 percent, already representing around one-third of the municipality's total export and foreign-exchange earnings. Of the 12 outlying rural districts and counties, 10 already each produce direct exports with output values of over 100

million yuan. The three counties of Jinghai, Wuqing, and Baodi each produce direct exports worth more than 300 million yuan. Of the 1,000 exporting enterprises, over 300 each produce direct exports worth more than 1 million yuan, and over 40 of these enterprises each achieved exports worth more than 10 million yuan.

In developing exports, exporting and foreign-exchange-earning enterprises take the lead in adopting new technologies and techniques, not only raising their own technological standards, but also bringing all township enterprises along in raising their technological standards. During the Seventh Five-Year Plan, exporting and foreign-exchange-earning enterprises introduced a total of 2,570 different advanced equipment and production lines, thereby raising key enterprises' standards of technological equipment to a new level and enhancing their ability to develop new products. In the past, the township garment industry could only produce low-grade garments. However, by introducing advanced and appropriate specialized equipment, it has not only upgraded the quality of its garments, but it has also developed a group of new, higher-grade products, such as tourist knapsacks, tents, and PVC [polyvinyl chloride] raincoats.

During the Seventh Five-Year Plan, Tianjin's township enterprises also strengthened their joint ventures with foreign trade departments, establishing over 80 trade and agricultural joint ventures with a total investment of 250 million yuan. Since they take full advantage of both trade and agriculture, these enterprises have rather strong market competitiveness, and thus they have become a key force for exporting and earning foreign exchange.

While actively developing export products, Tianjin's township enterprises have also endeavored to explore external economic cooperation, and "three kinds of partially or wholly foreign-owned" enterprises have just gotten started. Presently, agreements for over 60 Sino-foreign joint-venture enterprises have been signed, with a total investment of nearly 60 million yuan. Now, most of the enterprises have started operating or are in trial operations, and a model group of joint-ventures that are managed cooperatively has emerged.

### **Xinjiang's Township Enterprises During Eighth 5-Year Plan**

91CE0582B Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 8 May 91 p 1

[Article by Tie Jun (6993 6511): "Xinjiang Proposes a Plan for Township Enterprises During the Eighth Five-Year Plan"]

[Text] On the basis of conscientiously reviewing the experience of developing Xinjiang's township enterprises during the Seventh Five-Year Plan, a recent work conference on Xinjiang's township enterprises proposed a plan for the Eighth Five-Year Plan. Seven measures for accomplishing the tasks for 1991 were formulated. These measures demand that departments in charge of township enterprises, and the enterprises themselves, do an effective

job with service and production, and achieve a good start to the Eighth Five-Year Plan.

Despite many factors constraining the development of Xinjiang's township enterprises, the conscientious implementation of the party's policies to develop township enterprises has led to a certain amount of development in Xinjiang's township enterprises. In an elementary way this has formed a rather complete industrial structural system, and has created a development path that is in line with Xinjiang's realities and has Xinjiang characteristics.

The development of township enterprises has already had an important impact on Xinjiang's regional economy. This is shown mainly by the following: 1) Township enterprises have become an important part of Xinjiang's regional economy; their output values already represent 15 percent of the gross value of rural social output. 2) Conditions for agricultural production have improved. According to statistics based on incomplete data, during the Seventh Five-Year Plan 52.22 million yuan in township enterprise profits were used to directly subsidize agriculture, thereby playing a positive role in enhancing the sustained capability for agricultural development, building small rural market towns, and providing for collective welfare as well as for rural cultural and educational projects. 3) The development of township enterprises has hastened the process of shaking off poverty and getting rich. Aside from normal inputs of funds, inputs of credit at discounted interest rates for township enterprises in poor regions in southern Xinjiang have totalled over 38 million yuan. This supported the establishment of over 50 key township enterprises, so that they could shake off poverty on schedule. 4) New sources of wealth have been created for revitalizing county-level economies. In 1990, tax remittances reached 110 million yuan, representing approximately 5.24 percent of the region's total taxes, and 112.24 percent of the region's agricultural tax revenues. 5) There has been a transfer of the surplus rural labor force. The number of township enterprise employees in the region already represents around 16 percent of the region's entire rural labor force. In Urumqi County and Cangjie Prefecture, this figure has reached 22 percent; the highest proportion for a county is 42 percent. 6) The building of small rural market towns has been promoted. In recent years, a bunch of new, small market towns has formed in various localities, constituting rural political, economic, and cultural centers. This has played a positive role in reducing the differences between city and countryside, as well as between industry and agriculture, and in consolidating the alliance between workers and peasants. 7) The construction of a rural spiritual civilization has been promoted. With the development of the commodity economy and changes in material conditions, many township enterprises are actively building educational projects. As a result, in general peasants have gradually broken away from conservative and backward views, continuously enhanced their grasp of new ideas, and greatly improved their scientific, cultural, and technological qualities. 8) It has played an important role in maintaining stability and unity. The strengthening of collective economic capabilities provides a material base for doing real work for the masses, thereby

leading to closer relations between the party and the masses, as well as between cadres and the masses. This results in overall stability.

According to the conference, despite a certain amount of development, Xinjiang's township enterprises are still in the start-up stage. To achieve the quadrupling of the gross national product by the year 2000, and to change people's lives from having adequate food and clothing to being comfortable, Xinjiang's township enterprises must develop a great amount during the Eighth Five-Year Plan. This is a critical period for achieving second-stage development of the national economy, and also a crucial period for the sustained development of township enterprises. As proposed at the conference, the tasks for Xinjiang's township enterprises during the Eighth Five-Year Plan are: to increase the gross value of output value by an average of 10 percent annually; to increase the gross value of industrial output value [GVIO] by an average of 14 percent annually; to increase gross income by an average of 9.4 percent annually; to increase net profits by an average of 10 percent annually; to increase the transfer of the labor force by an average of 3.6 percent annually; and by 1995, achieve a gross output value of 4.026 billion yuan, a GVIO of 2.416 billion yuan, a gross income of 3.936 billion yuan, net profits of 544 million yuan, and an employed labor force of 600,000 people.

The conference proposed seven measures to ensure the implementation of this plan and the accomplishment of the tasks for 1991: 1) Conscientiously study and implement the spirit of the Seventh Plenary Session of the 13th Party Central Committee, the 16th Plenary Session of the Third Party Committee of the autonomous region, and the National Work Conference on Township Enterprises. Implement the various guiding policies contained in the Eighth Five-Year Plan and the Ten-Year Program, and actively promote the healthy development of township enterprises. 2) Enhance management, and carry out thorough and effective activities for the "Year of Quality, Variety, and Efficiency." Endeavour to develop enterprises' internal potential, lower production costs, improve product quality, focus on improving economic efficiency, and improve business management in order to enhance competitiveness. 3) Adjust the direction investment and increase the share of independently raised funds. Persist in actively adopting advanced technologies, in intensive production, and in keeping the appropriate scale of production. Support "four-wheel drive" [township, village, collective, and individual household enterprises], and handle the relationship between guaranteeing and cutting down so as to suit local realities, and develop actively. 4) Properly handle horizontal integration activities and economic coordination, and manage urban-rural integration. 5) Enhance the functions of departments in charge of township enterprises, do a good job with guidance, regulation, supervision, coordination, and service, and actively forge a proper order in the relationships with industries' departments in charge. 6) Deepen reform, and perfect the contract responsibility system for management. 7) Do a good job with ideological and political work. Continuously educate concerning the "three loves" and national unity,

and fully utilize the core role of party organizations and the pioneer and model role of party members.

### Chongqing Encourages Township Enterprise Exports

91CE0582C Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 10 Mar 91 p 1

[Report by Zhang Yuankang (1728 6678 1660): "Chongqing Supports Township Enterprises in Developing Exports and Earning Foreign Exchange, Giving Tax Exemptions to all Exports"]

[Text] The municipal party committee and municipal government of Chongqing, Sichuan, have formulated preferential policies to encourage their township enterprises to produce exports in order to earn more foreign exchange for the state. Last year, township enterprises in the municipality delivered exports worth over 300 million yuan, an increase of 39.02 percent over 1989. The amount in the first quarter of 1991 represented an increase of 34 percent over the same period last year. Their products, which include more than 100 varieties, are selling well in over 190 countries and areas worldwide.

Chongqing's municipal party committee and municipal government have included on their agendas the issue of township enterprise exports. They have formulated special policies for these exports, providing a total tax exemption for all of them, demanding that taxation departments at all levels strictly implement the provision, and further stipulating that foreign trade departments give the enterprises 5 percent of their foreign exchange earnings as a bonus. Employees of exporting enterprises are proud of earning foreign exchange for the state, and they are trying every means to produce more exports. By the end of last year, there were 259 exporting enterprises, with 31,404 employees. Last year, they delivered exports worth a total of 302 million yuan. There were 44 enterprises who delivered exports worth between 1 and 1.99 million yuan, 26 enterprises who delivered exports worth between 2 and 2.99 million yuan, 22 enterprises who delivered exports between 3 and 9.99 million yuan, and 9 who delivered over 10 million yuan worth of exports. The municipality's Hechuan County promoted such major exports as silk and eiderdown products by relying on backbone enterprises. Hechuan's Taihe Silk Factory delivered exports of raw silk and silk fabrics worth 15.78 million yuan. Last year the county's township enterprises delivered exports worth 51.89 million yuan, an increase of 37.46 percent over 1989. Yongchuan County emphasized that exporting enterprises should work on technological transformation, expanding their scale, and effectively arranging funds and key products. Last year the county's township enterprises delivered exports worth 27.86 million yuan, an increase of 91.31 percent over 1989.

### Brisk Enterprise Development Reported

91CE0582D Beijing ZHONGGUO TONGJI XINXI BAO in Chinese 2 May 91 p 1

[Article by Jiao Ran (3542 3544): "The Secret to the Rapid Growth of the 'Guerrillas'—Part One of a Series on Township Enterprises"]

[Text]Editor's comment: Township enterprises are a new thing. In the last decade, they have continuously grown and gotten stronger. There have been prominent achievements, but at the same time, there are also some problems that need resolving. This newspaper will publish a series of talks on township enterprises, reviewing their experiences so as to solve the problems and promote their healthy development.

People give township enterprises a respectable nickname—"guerrillas." Ten years ago, these "guerrillas" were still "sparks," representing only 7 percent of the gross value of national social output. Yet today, 10 years later, the "guerrillas" have become "prairie fires," constituting a pillar in the building of the Chinese economy, or "one-third of the country." During these 10 years, the "guerrillas" have grown at an annual rate of 25 percent.

Why have township enterprises been able to develop so rapidly? The answer can be summed up in one sentence: they enjoy advantages in terms of heaven, earth, and people.

Before the 1980's, township enterprises were called communes or brigade enterprises. They had difficulty developing due to a lack of freedom. Reform and opening to the outside world brought an east wind into township enterprises, enabling them to advance under full sail. Reform and opening to the outside world has been the "heavenly advantage" enjoyed by township enterprises as they developed.

The communique of the Third Plenary Session of the 11th Party Central Committee pointed out for the first time that it was necessary to encourage the development of the collectively owned township enterprises. In a few short years, hundreds of millions of peasants seized this opportunity, starting a wave of developing township enterprises. In Documents No. One and No. Four of 1984, the Central Committee indicated further and explicitly its strong support for the development of township enterprises. It pointed out that township enterprises were a driving force in the development of the rural commodity economy. In April 1988, an amendment to the Constitution also provided explicit encouragement for the existence of private enterprises. A whole series of policies and laws has given township enterprises the "imperial sword," so that hundreds of millions of peasants could do their jobs boldly and without worry.

From the very beginning, township enterprises have had freedoms with regard to investment, management, distribution, employment, and bankruptcy. They have those freedoms because they do not have "residence permits," do not "eat out of the same big pot," and do not have an "iron rice bowl." Township enterprises are businesses created by tens of millions of peasants who do not enjoy the overall care of the state. This is the "earthly advantage" enjoyed by township enterprises during the era of reform. Because of this "earthly advantage," township enterprises are responsible only for their efficiency, and nothing else, and the efficiency of their investment directly concerns the interests of investors. Because of this "earthly advantage," enterprise decision-makers must follow every minute change in the market, and gain the freedom for

survival and development through competition. Because of this "earthly advantage," township enterprises have to fight with their backs against the wall, and persevere or perish in a situation governed by the survival of the fittest: the superior are victorious and the inferior wash out. In short, it is exactly because they have broken away from the limits of the old management system that township enterprises have acquired a whole set of survival and development mechanisms. These include "independent management, independent responsibility for profits and losses, distribution according to work, the superior being victorious and the inferior washing out, and market guidance." They have gained great vitality and competitiveness.

The three phrases of "no prosperity without industry, no vitality without commerce, and no stability without agriculture" reflect the historical impulse of present-day Chinese peasants in developing township enterprises. From the director to the worker, every township enterprise employee left the yellow soil filled with a strong desire to grow rich and with the determination to change the rural backwardness. An investigative report by the State Statistical Bureau, which asked 200 large and medium-sized township enterprises about their motives for starting up business, showed that these enterprises all were motivated by a desire to increase income, provide employment, and change rural backwardness. Chinese peasants have reached the common understanding that, without the far-reaching light of industrial civilization, it would never be possible to shake off the labels of poverty and ignorance. This is the belief motivating hundreds of millions of peasants to develop township enterprises; this is the "advantageous human factor" for township enterprises.

The natural "kinship" relationship between political authorities at the grassroots levels and township enterprises is also a reason for the rapid growth of township enterprises. Governments would make all decisions on matters such as fund-raising, project selection, and land appropriation, as well as appointing enterprise directors and starting township collective enterprises. As indicated by the investigation's statistics, more than half of the personnel starting township enterprises came from among the cadre ranks in counties, townships, and villages, and they have very close social relations with political authorities at the grassroots levels. According to a 1988 investigation of magistrates in 100 counties, over 98 percent said that the objective dearest to them was the development of township enterprises. Almost all county governments have formulated a set of policies to encourage the development of township enterprises.

Such relationships between township enterprises and local governments have become closer because of the existing system of financial contracts. In the country's 94 counties whose fiscal revenues are over 100 million yuan, over 60 percent of their fiscal revenues come from township enterprises. Township enterprises have become the "pillar" and "purse" of county governments. Township enterprises and local governments have formed a relationship that entails common glory or common ruin.

## FOREIGN TRADE, INVESTMENT

### Import Volume Sees Sharp Recovery in April

OW1005182391 Beijing XINHUA in English  
1439 GMT 10 May 91

[Text] Beijing, May 10 (XINHUA)—According to statistics from the China General Administration of Customs, China's total import volume reached 5.21 billion U.S. dollars last month, an increase of 20.9 percent over the same month last year.

Meanwhile, the volume of its export was 5.28 billion U.S. dollars, a 10 percent increase over the same period last year.

The import volumes of both the commodities and raw materials exceeded their respective export volumes last month, the statistics revealed.

## TRANSPORTATION

### Shanghai Port Development Targets Handling Capacity

OW3006090891 Beijing XINHUA in English  
0814 GMT 30 Jun 91

[Text] Shanghai, June 30 (XINHUA)—The port of Shanghai, the world's fourth largest port, will have an annual handling capacity of 200 million tons by the end of the century, a 43 percent increase over 1990.

According to Tu Deming, director of the Shanghai Port Authority, the handling of foreign trade commodities will see the highest increase of 76 percent in the 1990s, and passengers going in and out the port will rise by 53 percent.

To achieve the goal, he said, the port operations will be restructured, establishing several companies in specialized fields. A company specializing in loading and unloading coal has already been set up in the port. Functions serving passenger transport and tourism will also be strengthened.

Changes will be made in the functions of all berths in the port to coordinate with the renovation in the city.

In addition, the service function of the port will be strengthened to build an "organic part of the modern international city of Shanghai", said the director.

Except for the traditional business of loading and unloading, storage and transportation, the port will enter new fields such as offshore industries, international trade, real estate, tourism and cultural recreation.

The port is also determined to employ technical renovation to complete automation in all loading and unloading processes.

Meanwhile, the director said, the port is considering deepening the channel at the mouth of the Yangtze River by the year 2000 to cater to the recent increase in large ships used in the international shipping industry.

The largest project facing the port is the construction of the Waigaoqiao Free Trade Zone port area in the Pudong New Area, Tu said.

On completion at the turn of the century, the project, China's largest port construction in history, will be an attractive window serving to connect Shanghai and the Yangtze River Valley with the outside world, according to the director.

He revealed that five berths would be constructed in the first stage of the project, to start in July 1992. After completion, the berths will add a 2.4 million ton handling capacity to Shanghai port.

The port of Shanghai now accounts for about 30 percent of total handling volume in the coastal ports in China, and 60 percent of all materials shipped in and out of the city are transported via the port. Its annual handling capacity hit 140 million tons in 1990.

### Guangxi Open Coastal City Builds New Railway

OW2406144691 Beijing XINHUA in English  
1205 GMT 24 Jun 91

[Text] Nanning, June 24 (XINHUA)—The Beihai city, one of China's 14 open coastal cities, will have a new railway to link other parts of south China's Guangxi Zhuang Autonomous Region where the city is located.

The Beihai-Qinzhou railway to be built will improve the infrastructure of Beihai, the most convenient sea port for provinces in southwest China, and boost the regional economy.

A regional official in charge of the project said that construction of the 104.37-kilometer railway, one of the region's key projects for the Eighth Five-year Plan period (1991-1995), will require a total investment of 298 million yuan.

Upon completion, the official said, Beihai will develop a communications system, linking itself with other cities by means of air, highway, rail and sea transport.

### Deal Signed With Germany To Design Aircraft Hangar

HK2206025491 Beijing CHINA DAILY in English  
22 Jun 91 p 2

[By staff reporter Qu Yingpu]

[Text] China and Germany signed a deal to design what will become the country's biggest hangar for a Sino-German aircraft maintenance joint venture in Beijing yesterday.

Under the contract, the China Aeronautical Project and Design Institute and Bilfinger and Berger, a renowned German construction company, will complete the 20.6 million yuan (\$3.9 million) design of the hangar for Ameco, the Beijing-based Aircraft Maintenance and Engineering Co, in nine months.

The 300-metre-wide hangar, covering a floor space of 60,000 square metres, will be put into operation in 1995. It will be capable of repairing four Boeing 747 planes at the same time.

Ge Shenghai, vice-president of Ameco, the joint venture between Air China and Lufthansa, told CHINA DAILY after he signed the contract that Lufthansa is going to invest 40 percent of the total 430 million yuan (\$81 million) investment needed for the construction of the hangar while Air China will put in the rest. He added that some major equipment for the hangar will be imported.

Wang Guiqing, an Ameco department chief in charge of the project, said it will help China save a lot in foreign currency.

When the project is completed, China will not have to send its Boeing 747 airplanes abroad for extensive repair, which means 60-70 days and \$4 million for each plane. Ameco's handling charge for similar aircraft will be just \$1.5 million, Wang said.

Before the establishment of Ameco, China could only handle the outdated Boeing 707s and Soviet models.

Wang said the hangar is the first of 27 major projects Ameco is planning to take on in the future. The second project, an electroplate workshop, is being planned now and will use 30 million deutschmarks (\$17 million) in soft loans from the German Government.

Total investment on the 27 projects, including an electrical workshop and a hangar for jet planes, is expected to be roughly two billion yuan (\$377 million). Once again, 40 percent of the money will come from Lufthansa. Air China will borrow the rest from Chinese banks.

The fixed assets of Ameco, which were only 480 million yuan (\$90.6 million) when the joint venture started operation in 1989, are expected to top 1.1 billion yuan at the end the century, Wang said.

"Our target is to establish an advanced aircraft maintenance and overhaul centre which can be compared with the world's best," he said, adding that Ameco will make the best use of German technology to achieve this goal.

Ameco, which started with an investment of 980 million yuan (\$185 million), started making profits last year, Ge said.

It repairs aircraft from Air China and other Chinese airlines as well as foreign planes at the Capital Airport in Beijing. Total business turnover in 1990 was 260 million yuan (\$49 million). Ge said he expected this year's turnover to top 300 million yuan (\$57 million).

### Shipping Enterprises Improve Transportation Productivity

OW0307001691 Beijing XINHUA in English  
2351 GMT 2 Jul 91

[Text] Beijing, July 3 (XINHUA)—Chinese shipping companies under the Communications Ministry handled a total of 129.57 million tons of cargo in the first half of 1991.

Meanwhile, the country's main river and sea harbors handled 305.51 million tons of cargo. The two figures represent 51.42 percent and 50.92 percent respectively of the state plan for the period. Moreover, both figures are 5 percent higher than the corresponding figures from last year.

In addition, trade import and export commodities handled stood at 905.5 million tons in the first half of this year, 18.97 percent higher than the same period last year.

Since the beginning of the year, shipping enterprises have made great efforts to hold activities to promote the "year of quality, variety and efficiency." Accordingly, the improvement of transportation productivity has successfully guaranteed the transportation of coal, oil, foreign trade import and export cargo and materials for agricultural use.

### Development of Shanghai Port Planned

OW2306010591 Beijing XINHUA in English  
0040 GMT 23 Jun 91

[Text] Shanghai, June 23 (XINHUA)—The annual handling capacity of Shanghai port, the largest of its kind in China, is expected to reach 200 million tons, 43 percent more than the figure of 140 million tons in 1990, according to Tu Deming, director of the Shanghai Harbor Bureau.

A new harbor covering an area of 500,000 square meters will be opened up at Waigaoqiao. During the Eighth State Five-Year Plan period (1991-95), four berths for ocean-going vessels and one for barges to engage shipping on the Yangtze river will be built at the new area. The total annual handling capacity of these berths will reach 2.4 million tons. Construction of the berths is to start in July this year.

Construction of a dugged harbor covering an area of 5.6 million square meters with dozens of protruding-dyke docks will start in the second half of 1990s. The annual handling capacity of the harbor will amount to 20 million tons.

Attention will be paid to accelerating the construction of docks for containers transportation. By the end of this century, the international container handling capacity of Shanghai port will grow to 1.2 million teus (twenty-foot equivalent unit) from 456,000 teus last year.

Director Tu said the Shanghai harbor development project is the largest project in the history of harbors in China so far, which will go beyond the century.

## PRC MEDIA ON FOREIGN ECONOMIES

### Lessons From Poland on Use of Foreign Capital

91CE0546A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 91 pp 33-35

[Article by Zhang Xiujun (1728 4423 0689) and Ren Huizhong (0117 2585 0022), affiliated with the Zhejiang College of Metallurgical Economics: "Lessons To Be Learned from Poland's Experience in the Use of Foreign Capital"]

[Text] I

Poland incurred a foreign debt of \$1 billion in its early use of foreign capital from the 1960's to the early 1970's. Then there was a net increase of \$15.7 billion in its foreign debt, from \$8.4 billion in 1975 to \$24.1 billion by 1980. As it used too many foreign loans, put the amount that it "borrowed" beyond its "repayment" capability, achieved poor social results and economic efficiency, and was unable to revise its borrowing policy in time to adapt to international market fluctuations and problems that arose in the building of its domestic economy, it finally experienced what the foreign media called a "foreign debt explosion," which bogged the Polish economy down into a spiral of constantly increasing foreign debt, with an average foreign debt growth of about \$3.1 billion a year. Poland began to enter its peak debt repayment period in 1982, after which its due foreign debt payments of capital with interest averaged more than \$5 billion a year, turning profits into debts, adding debt to debt, and creating an increasingly unbearable and heavy burden along with the increased rollover of foreign debt. Its foreign debt continued to grow in the 1980's, sharply increasing to \$28.9 billion in 1984, \$32.4 billion in 1985, and \$38.9 billion by 1988. By the end of 1989, Poland's foreign debt had reached \$41.5 billion, making Poland eastern Europe's biggest debtor nation, and also one of the 15 biggest debtors among the world's developing nations. While Poland has made great efforts to repay its foreign debt in recent years, its huge foreign debt with high interest rates have left it short of the funds necessary to fully repay its foreign debt capital with interest, and its foreign debt increasing steadily. Poland's economic situation is now deteriorating, its people's living standards are clearly falling, various inherent conflicts in its social life are surfacing and sharpening, its social instability is increasing, its political situation is unprecedentedly turbulent, and its debt crisis has become the key limiting factor that is impeding the rejuvenation of the Polish economy. In which case, what are the key factors that have landed Poland in such a debt crisis?

**Poor Macroeconomic Management:** In its initial stage of using foreign capital, Poland failed to establish a centralized authoritative agency to specially formulate foreign capital strategy, laws and regulations, and policy, which would be fully responsible for the overall coordination, guidance, policymaking, examination, and approval of all foreign debts. As its economic reforms developed and deepened, its foreign capital management jurisdiction was

further devolved to lower administrative levels. For instance, jurisdiction over things, such as the granting and acceptance of foreign and domestic loans, the issuing and exchange of negotiable securities, financial activity guarantees, and the foreign exchange business, was transferred from the central bank to all local banks, and all departments and localities were given foreign capital examination and approval authority. For a time, direct loans to localities accounted for more than 75 percent of Poland's foreign capital usage, which caused a loss of macroeconomic control over the use of foreign capital, and excessive national debt liability.

**Runaway Investment:** Without fully considering the rationality or feasibility of its investments, Poland invested large amounts of money in building its economy, particularly in long-range and large-scale projects, which imbalanced various sectors of its economy. Its concentrated development of a few sectors, which other sectors were unable to match, caused a huge amount of unprofitable investments. Poland's average annual investment accounted for more than 40 percent of its GNP, causing its national economic growth rate to exceed its fiscal possibilities. Its steadily increasing foreign debt accumulation and steadily decreasing repayment capability, finally put its foreign debt at twice the level of its GNP. Although Poland's foreign debt had already passed the danger point by the mid-1970's, in order to fulfill its huge economic development plans and alleviate its domestic fund shortage, Poland did not hesitate to seek temporary relief regardless of the consequences, which caused a further steep increase in its foreign debt. By the early 1980's, Poland's debt payment rate had reached a high of 78 percent. This rash economic policy of ignoring objective conditions, unchecked borrowing, and increased investment, was the key factor in Poland's debt crisis.

**Irrational Foreign Capital Makeup:** In its use of foreign capital, as Poland overlooked the fact that commercial loans have high interest rates, short repayment periods, a high susceptibility to international money market fluctuations, high fundraising costs, and great risks, it incurred too many commercial loans, which accounted for too high a percentage of its use of foreign capital. Commercial loans accounted for 68.39 percent of Poland's use of foreign capital from 1976 to 1986, while the experience of countries that have used foreign capital successfully shows that this rate should be less than 25 percent. In addition, Poland also failed to make rational plans for maturity periods in its use of foreign capital. Its ratio of short- to medium- and long-term loans averaged 8:2, and most, usually more than 90 percent, of its short-term loans had maturity periods of less than a year. Poland incurred new loans with increasingly shorter maturity periods and increasingly higher interest rates. Its irrational foreign capital makeup overconcentrated Poland's debt repayment, and the shortening of debt repayment periods that this brought caused foreign debt payment difficulties beyond the capability of its national finances.

**Improper Use of Foreign Capital:** As Poland's use of foreign capital lacked central planning, it was not based on its economic development advantages and development

strategy needs, but much of it was invested in the field of consumption, instead of being guided toward the field of production by national industrial policy. Poland's personal consumption accounted for more than 60 percent of its national income in the mid-1970's and, although this figure had decreased somewhat by the mid-1980's, it was still almost 60 percent. As Poland's consumption exceeded its GNP for more than a decade, its production had difficulty satisfying consumer demand, which forced it to incur foreign debt to maintain its level of consumption. This severe excess consumption was a direct cause of Poland's debt crisis.

**Weak Foreign Debt Repayment Capability:** While the international practice of striving to increase export earnings to enhance foreign debt repayment capability, is a prerequisite for the use of foreign capital, and a key indication of how well it is being used, Poland's situation in this respect was less than ideal for many years.

Factors, such as poor economic efficiency, and fluctuations in exchange and interest rates, product quality, and international market demand, left many of Poland's foreign-invested enterprises with low export earnings and a very poor "self-repayment rate" for borrowed foreign capital.

**Unchecked and Duplicate Importing:** Poland's overuse of foreign capital not only caused its foreign capital to be wasted, but also affected its domestic economic development. Some departments and localities proceeded from selfish economic interests, by engaging in duplicate importing of equipment and technology to produce consumer goods. Although Poland had already successfully developed, used, and achieved clear economic efficiency with some equipment, it still spent huge amounts of foreign capital to import such equipment, which greatly lowered its efficiency in the use of foreign capital.

## II.

The lessons that China can learn from Poland's debt crisis are that it is easy to incur foreign debt but hard to repay it and, if it is not controlled effectively, managed well, and used properly, it will not only not be able to play a positive role in our national economic development, but may also have a disastrous impact. If China truly wishes to use foreign capital rationally and effectively, in order to keep from landing in a debt crisis similar to Poland's, we will have to enhance and improve our foreign capital management and set up a sound foreign capital management system.

1. We must take conscientious steps to enhance our macroeconomic control over foreign capital. Poland's experience shows clearly that a decentralized foreign capital management system is likely to cause unchecked and decentralized use of foreign capital, lead to departments and localities acting as they think fit, and thus, result in a loss of macroeconomic control over foreign capital. China's macroeconomic control over foreign capital, as Poland's, suffers from the defects of too much fundraising and decentralized management, and still lacks a centralized management agency. Foreign specialists have noted

that "The most glaring problems in China's current foreign capital management are too many fundraising windows, a too complex division of labor, and a lack of conformity to international practice. In particular, China's lack of a centralized management agency is especially dangerous." Thus, the best way for China to achieve effective macroeconomic control over and management of foreign capital would be to set up a centralized, authoritative agency for the management of foreign capital, which could be called the "National Foreign Capital Management Commission." It should be charged with the following major tasks: centralizing foreign capital policymaking in line with our national economic development strategy and industrial policy, and formulating China's overall foreign capital scale and makeup; formulating foreign capital strategy, plans (including long-, medium-, and short-range ones), policies, laws, and regulations; controlling foreign capital investment orientation and regulating foreign capital scale; defining the responsibilities, rights, and duties of foreign capital management agencies, and enterprises that use foreign capital; studying and setting repayment and liability rates, and foreign capital payment measures; enhancing foreign capital statistics keeping, predictions, and control, and making comprehensive feasibility analyses in the areas of foreign capital quotas, timing, forms, and sources; setting up foreign capital projects and studying and appraising their feasibility, examining and approving all departmental and local foreign capital projects and fundraising qualifications, and settling disputes. This would enable the state to fully control China's overall foreign capital situation and development trends, and enhance its macroeconomic control and regulation of foreign capital, in order to avoid the possibility of a debt crisis arising from the current situation, in which control is poor because too many people are involved in it.

2. We must adjust our foreign capital makeup. Poland's debt crisis shows that an irrational foreign capital makeup is a potential factor in the occurrence of a debt crisis. This is also a key problem that exists in China's current foreign capital management. First, commercial loans account for 65 percent of China's foreign capital, which is higher than the average of 58 percent for all developing countries, and roughly equivalent to Poland's. Second, short-term loans account for an average of 40 percent of China's foreign capital and, although this rate is lower than Poland's, it is higher than those of the world's three major debtor nations of Brazil (12.6 percent), Mexico (5.8 percent), and Argentina (14.3 percent), and also higher than the international correspondent bank standard of 25 percent. Finally, the repayment periods are too concentrated for the long- and medium-term loan contracts that China has signed. Most of the loans that we incurred during the Sixth and Seventh Five-Year Plans will become due between 1991 and 1995, with 1993 being our peak period of repayment of capital with interest, when our repayment rate will reach about 18 percent and approach the internationally accepted debt crisis warning point of 20 percent. Thus, China should take the following steps to adjust our foreign capital makeup: 1) We should strictly control commercial loans. While commercial loans may be an easy means of fundraising, they

often cause a loss of control over foreign capital when they are incurred in excessive amounts and percentages. Thus, we must quickly change our current commercial loan management chaos, take firm steps to strictly control commercial loans and lower their percentage of our foreign capital, take active steps to acquire intergovernmental and international banking loans, and set standards for their ratio to commercial loans. 2) In order to stabilize our foreign capital, we should rationally spread out our foreign capital repayment periods, strive for a rational makeup of long-, medium-, and short-term loans, and prevent an overconcentration of repayment periods and the too early arrival of our peak debt repayment period. In particular, we must guard against the occurrence of a peak debt repayment period during world economic recessions or times of crisis. 3) We must restrict loan periods with loan recovery periods and loan interest rates with investment earnings rates, and not allow loan deadlines to be shorter than loan recovery deadlines or loan interest rates to be higher than investment earnings rates, in order to avoid debt repayment difficulties caused by too short loan periods or too long investment recovery periods. In addition, China could follow the example of debt capitalization set by Latin American countries, i.e., convert our debt into direct investment in China. This could lighten our foreign debt burden, optimize our foreign debt makeup, and improve our credit rating, while indirectly increasing foreign investment in China, speeding up our economic development, and helping to enhance our foreign debt repayment capability. China should now launch negotiations in this area, and formulate the relevant measures, laws, and regulations to give foreign businessmen certain preferences, while safeguarding China's interests.

3. We must guide our foreign capital investment orientation scientifically. China's current foreign capital investment orientation is irrational as follows: too low percentages go to primary and secondary industries, while too high a percentage goes to tertiary industries; too little is used for infrastructures and basic industries, while too much is used for ordinary manufacturing industries; too little is used to import advanced technology, while too much is used to import complete sets of equipment and package deals; too little is used to increase exports, while too much is used to produce products for domestic markets. According to international practice, both capital and interest must be paid on loans. This is a basic feature and functional requirement of loan capital operations. Therefore, in order to improve our economic efficiency in the use of foreign capital and ensure its prompt repayment, we should learn a lesson from Poland and draw on China's experiences in recent years, by optimizing our industrial policy objectives and guiding our foreign capital investment orientation scientifically. As a key production factor in China's economic input, foreign capital is bound to have a crucial impact on industrial policy, but equal amounts of foreign capital often have a varying impact on industrial policy due to different investment orientations. In order to optimize our industrial policy, in addition to continuing to use some foreign capital to indirectly promote foreign trade export projects in areas, such as power,

transportation, and raw materials, China should also gradually shift our future foreign capital investment orientation priority toward directly expanding foreign trade export projects, many substitute export projects, advanced technology projects, and export earnings projects. Moreover, the state should give most future preferential support policies and measures to strategic, basic, and bottleneck industries that have development priority in state plans. For industries with varying foreign capital investment orientations, we should adopt differential policies, such as supporting and encouraging, allowing, limiting, or prohibiting investment, in order to make foreign capital investment orientation consistent with industrial policy, economic and social development plans, and foreign trade growth plans. This will ensure that our foreign capital investment leads to a foreign exchange surplus, and will promote good foreign capital circulation.

4. We must better study international money markets. When inflation and interest rates fell in West European countries in the early 1970's, Poland naively hoped to take advantage of the opportunity to incur certain "cheap debts," while overlooking the interest and exchange rates risks of fundraising on international money markets in the midst of unrest in the world's monetary system. The West's implementation of an "appreciation" monetary policy in the late 1970's and early 1980's, which raised loan interest rates from 6 percent in the first half of the 1970's to 20 percent by the early 1980's, in addition to the fact that about two-thirds of Poland's foreign capital came from unsecured bank loans with high interest rates, left Poland paying \$5 billion more in interest from 1983 to 1988 than in the preceding five years. In addition, as about 55 percent of Poland's foreign capital was in West German marks, the successive years of rises in the value of the West German mark after 1985 cost Poland a loss of 9 billion West German marks from 1985 to 1988, which undoubtedly added fuel to the flames of Poland's heavy debt. China has also experienced exchange rates risks. For instance, as roughly 50 percent of our foreign capital during the Sixth Five-Year Plan came from Japan, the steep rise in the value of the yen, along with the devaluation of the RMB, almost doubled China's debt burden. This shows that a key task of our foreign capital management is to better investigate and study international money markets. Based on international financial conditions and China's fundraising demands at various times, we should study issues, such as how to begin to borrow from various regions and markets, and fundraising volume, method, currency, interest rates, debt optimization, exchange earnings, and interest-bearing, analyze and predict interest and exchange rate fluctuations, take effective preventive measures, enhance our capability to deal with emergencies, and seize the best times to borrow on international money markets. In addition, China also needs to make a corresponding adjustment in our foreign capital monetary unit makeup, by increasing its percentage of U.S. dollars and decreasing its percentage of Japanese yen. Of course, we must pay attention to interest rates trends for the U.S. dollar. If the U.S. dollar interest rate is too high, we should consider the difference between the

U.S. dollar interest rate and the U.S. dollar exchange value and, if it is too low, we should decrease our percentage of U.S. dollars in our national foreign exchange capital makeup. As it seems that the U.S. dollar exchange value is going to be in a declining trend for the immediate future, we must increase our percentage of U.S. dollars, and increase our gold reserves in particular. Gold reserves are a good way to protect value during times of sharp exchange value fluctuation and economic crisis.

5. We must manage our foreign capital through legal means. Another factor in Poland's debt crisis was its neglect of the importance of using legal means to manage its foreign capital. While China has over 200 laws and regulations on attracting foreign investment, we still have no foreign capital management law. All functioning departments have simply drawn up certain regulations based on their management needs, which has caused each doing things their own way and overlapping, and formed an abnormal situation of no domestic management and no basis for settling international debt disputes. In order to ensure a normal fundraising order, and keep from landing in a debt crisis, China should formulate and publish as quickly as possible laws and regulations on the management of foreign capital, such as a "National Foreign Capital Management Law," a "Foreign Loan Examination and Approval Law," and an "Investment Law." These laws should emphasize the importance, seriousness, and special features of foreign capital management, provide the macroeconomic control means and basis for achieving foreign capital of scale, provide legal microeconomic fundraising and use procedures for limiting foreign capital scale and debt payment rates, change foreign capital management from "rule by man" to "rule by law," publicize, organize, standardize, and legalize foreign capital management, promote the legalization of foreign capital borrowing, use, and repayment, and include foreign capital management in our legal system.

6. We must emphasize the training of talented personnel. The problems caused by a shortage of professionals to manage foreign capital is a lesson that we can learn from the mistakes that Poland made in its use of foreign capital. The greatest current impediment to China's successful foreign capital management is also a shortage of talented personnel who are proficient in their professional work and have a good command of foreign languages. The key to making China's foreign capital management highly effective, acquiring foreign capital at the best interest and exchange rates and with the most suitable maturity periods, improving our capability to deal with emergencies, and seizing the best time to borrow on international money markets, is to train talented personnel. This is a pressing problem for our foreign capital management. While allowing cadres to practice while learning and toughen to maturity is certainly important, it is even more important to train in a goal-oriented and planned way a large number of foreign capital management and administrative professionals in a certain amount of international investment theory and practice. For instance, cadres with both ability and political integrity should be transferred from concerned departments and enterprises to take part

in directed training, colleges and universities should establish relevant specialties to train a large number of highly skilled professionals suited to future foreign capital management, and well-experienced foreigners should be engaged and put in charge of relevant departments.

## AGRICULTURE

### Sales Price in Zhengzhou Wholesale Grain Market

#### Prices at Beginning of June

91P30162D Beijing JINGJI CANKAO BAO in Chinese  
13 Jun 91 p 2

[Text]

unit: yuan/kilogram		
Item	Grade	Price
White Wheat	Third	0.870
Wheat Flour	Standard	0.900
Corn	Second	0.570
Soybeans	Third	1.250
Bran		0.440
Unshelled Peanuts	Third	1.435
Shelled Peanuts	Third	2.460

#### Prices During Mid-June

91P30162Q Beijing JINGJI CANKAO BAO in Chinese  
28 Jun 91 p 2

[Text]

unit: yuan/kilogram		
Item	Grade	Price
White Wheat	Third	0.870
Wheat Flour	Standard	0.900
Corn	Second	0.560
Soybeans	Third	1.300
Bran		0.442
Crude Flour		0.460
Polished Long-grain Rice	(market rice)	0.800

### Report on Hubei's Grain Market Activities

91CE0592B Beijing JINRONG SHIBAO in Chinese  
7 May 91 p 3

[Article entitled "Stable Prices, Active Trade: More Than 1.1 Billion Jin Change Hands in Hubei's Grain Market"]

[Text] Since its inaugural on 6 March, the volume of business in Hubei's provincial wholesale grain market, known as "China's largest rice market," has been soaring. Nationwide, 25 provinces, municipalities, and autonomous regions have bought grain in this market. Up to 31

Mar, 1.11864 billion jin have been bought and sold. Of this amount, 666.49 million jin will be delivered in three months' time and 453.15 million jin will be delivered within six months.

Statistics show that the largest buyers of grain in this market are Guangdong, Guangxi, Guizhou, Hebei, Jilin, and Sichuan: Guangdong bought 273.14 million jin; Guangxi, 198.65 million jin; Guizhou, 118.4 million jin; Hebei, 91.34 million jin; Jilin, 70 million jin; Sichuan, 63.75 million jin. In addition, Yunnan bought 58.95 million jin; Shanghai, 56.50 million jin; Hainan, 31.80 million jin; Shaanxi, 15.60 million jin; Beijing, 15.60 million jin; Tianjin, 10 million jin; Shandong, 10 million jin. Provinces and autonomous regions that purchased less than 10 million jin of grain include Jiangsu, Hunan, Zhejiang, Heilongjiang, Liaoning, Fujian, Henan, Jiangxi, Xinjiang and Inner Mongolia, Shanxi, and Gansu. Among them, Jiangsu, Henan, and Zhejiang bought close to 10 million jin and the other provinces and autonomous regions bought 5 million jin or so.

Most of the provinces, municipalities, and autonomous regions that bought husked rice in the Hubei grain market, including Heilongjiang, Jilin, Hebei, Sichuan, and Shandong, are using their rice to regulate their local varieties. Others are perennial grain-scarce provinces, municipalities, and autonomous regions, such as Guangdong, Guangxi, Guizhou, Beijing, Shanghai, Tianjin, Yunnan, Fujian, and Shaanxi. According to personnel from these provinces, municipalities, and autonomous regions sent to buy grain in Hubei, the above nine provinces, municipalities, and autonomous regions together are short more than 14 billion jin of grain each year. Among them, Guangdong, Guangxi, and Guizhou must buy nearly 9 billion jin of grain a year from other provinces.

Since its inaugural on 6 March, Hubei's provincial wholesale grain market has engaged in competitive buying and selling of grain, and buyers and sellers negotiate prices. Business has been brisk, but prices have been steady for most grain varieties.

Statistics show the closing price of late crop of polished long-grained nonglutinous rice to be 1.00-1.04 yuan a kilo; late crop of polished round-grained nonglutinous rice, 1.08-1.10 yuan a kilo; late crop of round-grained nonglutinous rice, 0.70-0.76 yuan a kilo; broken rice, 0.74-0.78 a kilo; polished glutinous rice, 1.40 a kilo; late glutinous rice, 1.10 yuan a kilo; broad bean and pea, 1.10-1.20 yuan a kilo; superior white or extra-fine flour, 1.50-1.60 yuan a kilo; red and white wheat, 0.84 yuan a kilo; yellow and white sesame, 4.30-4.40 yuan a kilo.

It is the opinion of the grain merchants from the 25 provinces, municipalities, and autonomous regions that the closing price of rice in Hubei's provincial wholesale grain market is slightly lower than elsewhere. They say that despite the transport and miscellaneous costs, management and custodian fees and so on, they are not losing any money by buying grain from Hubei Province, and most of them are looking forward to buying more grain from Hubei.

Luo Jiqing [5012 0679 1987], manager of Hubei's provincial wholesale grain market, said that prices in Hubei's wholesale grain market will remain unchanged for at least another month, because although more than 1.1 billion jin of grain have changed hands, it has only eased some of Hubei excess grain supply problems. The province has another 7-8 billion jin of grain to sell. In addition, the peasants have more than 2 billion jin of surplus grain on their hands, and they are looking for buyers too.

### 'Socialized Services' Should Serve Peasants

91CE0592C Beijing JINGJI RIBAO in Chinese  
13 May p 2

[Article by reporter Xu Baojian (6079 1405 0256): "What Kind of Services Do the Peasants Need?"]

[Text] A more popular slogan in the rural areas today is probably the term "socialized services." No doubt, as the focal point of today's thorough rural reform, socialized services have made great strides in recent years and have played a very positive role in helping the peasants develop production, enlivening circulation, and promoting the development of commodity economy in the rural areas.

Now that the family based, output-related system of contracted responsibility has been stabilized, the purpose of rural socialized services ultimately is to serve the peasants. But upon visiting the villages, this reporter has learned that although the peasants are in desperate need of services, some services are not exactly welcomed.

One, some socialized services are ideologically incorrect. They exist in name but not in fact. They are but a formality and are for keeping up appearances. Some villages are not sincere in providing services for the peasants. They are doing it because others are doing it, and the socialized services are but a formality, there to pass inspection by the higher authorities, and they are but a facade. As for the actual provision of services, some personnel are of poor quality and cannot meet the peasants' needs. Some have poor workstyle and cannot deal with realistic problems or give the peasants practical assistance. All they do is talk, and some even give wrong directions. This kind of service not only does not promote agricultural development but actually obstructs the peasants' normal production.

Two, there is no focus: The socialized services either approach all problems in the same indiscriminate, standardized way, or they start something here and something else there and do not follow up. Some village cadres are so eager for quick success that they oversimplify socialized services and make no in-depth studies. They take the indiscriminate, standardized approach. The kind of services they provide is not what their village and their peasants need. On the other hand, some localities offer impressive-sounding services, but they have no focus. They do a little here and little there. Everything is haphazard. The peasants do not know which way to turn. The peasants' most urgent problems are not being solved, and their most urgent needs are not being served. Human, material, and financial resources are wasted for nothing. Other localities may focus on certain services, but there is

no sense of continuity. For example, there may be pre-production services but no management and technological guidance during production and no one to help with the sale of agricultural and sideline products in the post-production period, and the peasants lose money as a result.

Three, the peasants are overcharged, and socialized services have become a financial burden, which dampens the peasants' enthusiasm in getting those services. Socialized services are compensated services. A fee should be charged. The problem is, some localities charge more than what the peasants can afford to pay. Some fees have turned into appropriations. For example, some villages charge 0.50 to 0.60 yuan to dress a jin of corn and more than 10 yuan to machine till a mu of land. In addition, for some services, the peasants have to wine and dine the service personnel. Because the peasants are reluctant to obtain these services, some localities use administrative measures to force them into accepting them. When it comes to socialized services, some localities are hoisting the banner of service for the people to squeeze the "fat" and the "grease" out of the government and the masses. They are turning these services into ways to make a profit for themselves. These kind of "services" do not serve the peasants; they entrap and ruin them.

#### **Shanxi Reforms Water Fees for Agricultural Use**

91CE0616A Beijing JINGJI CANKAO BAO in Chinese  
31 May 91 p 1

[Article by correspondent Tian Yulong (3944 3768 7893) and Li Renhu (2621 0088 5706): "Shanxi Reforms Agriculture-Use Water Fees"]

[Text] In the first province in China to measure water use and collect fees for it—Shanxi Province—the peasants did not irrigate their fields less because the price of water was high. Last year the area under winter irrigation in Shanxi was 8.3 million mu, 1.19 million mu more than in the same period of 1989, and the most successful winter irrigation in the past 20 years.

We understand that early last year Shanxi adopted new methods and rules for water fee management, and the cost of agriculture-use water per cubic meter was not to be lower than four fen, more than double the previous price. In 1990, 199 water management accounting units in Shanxi collected 64.904 million yuan in water fees, 29.955 million yuan more than 1989, or an 86 percent increase. Governments at all levels in Shanxi used this money on water conservancy projects, renovating some that had fallen into disrepair and markedly raising the water-supply capacity.

Because of the reform of agriculture-use water fees, the chaotic situation in the past, in which after water fees were collected when water was drawn off there was a scramble for it, is now being replaced by a new, orderly situation, in which the fees are collected according to regulations. After the new price was put into effect for last year's winter irrigation in Licheng County, many peasants said: Paying money to buy water tickets and buying water with these tickets means that stealing water is the same as stealing

money. Thus, they consciously paid the fees for irrigation water in accordance with the regulations, and they irrigated a larger area at a faster rate without damaging the amicable relations among themselves.

In the province the leaders of governments at all levels and the broad masses of peasants now understand that wasting water is wasting money. Therefore, those who consume water make safeguarding water conservancy projects and using water economically an important task. Last winter and this spring, there was an upsurge in the counties, townships, and villages, and among the peasants, to raise money for water-saving projects, and many county collectives and peasants raised over a million yuan.

We understand that, in the implementation of the new water fees, there have appeared the problems of raising fees at each level, making inadequate measurements, and being in arrears on water fee payments. The relevant departments are considering new measures for the perfection of agriculture-use water fee management.

#### **Reform of Tianjin Grain System**

91CE0616B Beijing NONGMIN RIBAO in Chinese  
17 May 91 p 1

[Article by staff reporter Zhao Zekun (6392 3419 3824): "Tianjin's Experience in Separating Profit, Loss in Grain Management To Be Popularized Throughout China"]

[Text] With regard to a matter that concerns a special commodity in the national economy and people's livelihood—the reform of the grain management system—in the final analysis how should it proceed so as to extricate this management from the spiral of regulated marketing, stockpiling, and losses? In October 1989 Tianjin Municipality took the measure of "separating policy management and normal management, and making a clear distinction between the two lines of profit and loss," after which financial subsidies fell, enthusiasm rose in the grain system, the previous desire not to store grain turned into doing everything possible to stockpile grain, and purchasing funds channels were unblocked.

Since the 1950's the state has strictly exercised centralized, unified management over grain. However, the fundamental problem in the system of "decentralized operations in state priced grain and edible oil, and many parties incurring losses" has not been solved. Tianjin has 216 grain and edible oil storehouses and rural grain depots that manage state priced grain and edible oil, thus the losses in parity management are not incurred by just one shop but by 216 grain shops. The present operating system is detrimental to the centralized, unified management of state priced grain and edible oil, and is also detrimental to arousing the operating enthusiasm of grain and edible oil storehouses and rural purchase and sale enterprises. This state priced operation in which there are mechanisms for "unified revenue and unified expenditure" and other mechanisms for operations in which "sole responsibility is taken for losses" has increased the share taken by funds, and easily causes negotiated prices to squeeze out parity costs and behavior that harms the state's and people's

interests. In 1989 subsidies paid to local financial administrations for grain losses amounted to 1.124 billion yuan in Tianjin, equal to a fourth of the financial revenue in that year.

To find out the cause of the problem, and fundamentally change this situation, we must change the original system of "decentralized operations in state priced grain and edible oil, and many parties incurring losses" to a system in which there are "unified operations in state priced grain and oil, and centralized reflections of losses," drawing a clear demarcation line between policy losses and operational profits and losses. We should set up mechanisms in which enterprises develop on their own, take sole responsibility for profit and loss, and exercise self-restraint.

The content of Tianjin's reform of its grain system may be summarized as follows: "Draw two clear lines of demarcation for profit and loss, declare one party as the party that occurred the loss, and emancipate the enterprises at one stroke." First, it set up a municipal grain and edible oil purchase and sale company and branch companies in all suburban counties, and the municipality's Food Bureau authorized the company and its branches to administer and manage state priced grain and edible oil. The company sums up the operational losses in state priced grain and reports the total to the financial departments for them to handle. Second, the 216 grain and edible oil storehouses and rural network points took sole responsibility for their own profits and losses, and no longer bear losses of a policy nature in their operations in grain and edible oil. A complete changeover was made to a practice in which the grain and edible oil purchase and sale company transports, stores, buys, and sells state priced grain and edible oil. The company also took over a certain number of commission enterprises, which had charged commissions. Third, in accordance with the two lines for profit and loss, different forms of the contract operational responsibility system were put in place. On the basis of smoothing out economic relationships, the contract assessment and the rewards and penalties for different contracts were determined respectively for enterprises that showed a profit and for enterprises that showed a loss. Their responsibilities, authority, and interests were made clear; and the two types of enterprises restrained and promoted each other.

The specific practices of Tianjin in this reform were: First, the tasks and functions of all relevant departments and units were made clear. Second, the economic relationship between the purchase and sale company and the other enterprises was made clear. Third, the commission paid to the commission enterprises was appraised and decided. Fourth, the distribution ratio for the profit and retained profits of commission enterprises was determined. Fifth, the sources for raising funds for the reform were made dependent on an internal adjustment of the grain system. Sixth, the delivery of state priced grain and edible oil and the transfer of funds were handled well.

Tianjin's grain and financial departments said that this reform had been a painful, arduous process. There were conflicts about the adjustment of mechanisms, and there were also often clashes during the changes in thinking. At

first many people did not understand. Some of them said: "For several decades things have gone smoothly, so what is there to reform?" Others said: "In any case, grain is handled by the state, and the reform will make no difference." Still others worried that the reform would throw the market into disorder. After more than a year of practice, the measures of the reform had passed the test. Not only did there not appear the problems about which there had been worry; but also the reform brought advantages to the state, enterprises, and peasants. It smoothes out the operational channels, and laid the foundation for the next opening up of grain operations. Confidence in the reform was strengthened and ideological concepts renewed.

The steps taken in Tianjin's reform of the administrative and management system in state priced grain and edible oil have been comparatively safe, their direction has been correct, and distinct results have been achieved. First, the enthusiasm of the 216 units engaged in grain operations runs high because the policy allows the enterprises to operate in a way that "the more grain they store, the more money they make," and so they tap all possible ways and means the potential of storage capacity. Last year Tianjin's grain reserves were at the highest level in history, showing an increase of 35 percent over those of the previous year. In the past it was all the same whether grain was stored or not, but now, with self-responsibility for profit and loss, it is not all the same; and the municipality has saved more than 30 million yuan in expenditure. Reform has caused the enterprises to put an end to the history of "eating out of one big pot" in which "income and expenditure were unified." The net retained profit per capita in the enterprises is now 1,492 yuan. Next, the reform controls and lowers subsidy losses. The mechanisms for self-development, self-restraint, and self-expansion have strengthened all parts of internal management. The number of loans has declined, interest payments have been reduced, and the funds channels for grain purchasing tasks have become completely unblocked—all of which has both reduced the amount of waste and accelerated the pace of purchasing, thereby avoiding the phenomenon of "firing blanks." Last year Tianjin's grain loss was 320 million yuan less than in the previous year. Excluding the objective factors of policy and plan adjustment and other factors, the returns directly brought by this reform amounted to more than 66.9 million yuan. Finally, making the two lines of demarcation clear has initially solved the problem of mutually crowding out. Because responsibilities were made clear and profit and loss were made distinct, the problems of negotiated prices squeezing out state prices, industry squeezing out commerce, and expenditure on state priced grain and edible oil being excessively high were all initially solved.

This "two-line operation" set of mechanisms for grain operations put into practice by Tianjin, have been fully approved by the State Restructuring of the Economic System Commission, the Ministry of Commerce, and the Ministry of Finance. Recently the two ministries and one commission jointly held a conference in Tianjin that called for the gradual popularization of Tianjin's experiences on a nationwide scale.

### Zhejiang Agricultural Banks Incur Losses

91CE0616C Beijing JINGJI CANKAO BAO in Chinese  
22 May 91 p 1

[Article by staff trainee Chai Jicheng (2693 7535 4453): "Investigation of Losses Incurred by Zhejiang Agricultural Banks"]

[Text] Banks honored as the "God of Wealth" unexpectedly incurred losses, this was the perplexing phenomenon that occurred last year and this year in Zhejiang agricultural banks.

Generally speaking, profit or loss is produced after the income from the interest on a bank's loans balance the expenditure for interest on its deposits. In 1990 Zhejiang agricultural banks had an income of 1.312 billion yuan from loans and an expenditure of 1.367 billion yuan for deposits. The profit and loss situation in one fell swoop fell from the 300 million yuan profit in 1989 to an actual loss of 55 million yuan in 1990. In 1991, because factors for loss still exist and there are new factors for loss this year, a financial expert cautiously estimated that the losses incurred by Zhejiang agricultural banks this year will be larger than last year's.

"Behind this situation are both factors of a policy nature and causes in the objective operational environment." A financial expert specifically analyzed the causes of the losses as follows:

The decrease in loan interest income caused by policy factors is one of the main causes of the losses. In 1990 the state lowered the loan interest rate three times, causing a 133 million yuan decrease in Zhejiang agricultural bank's interest income. According to statistics, in 1990 agricultural and sideline product purchasing loans, agricultural bank loans, relief-poverty loans, and other favorable-interest loans extended by Zhejiang agricultural banks accounted for 31.8 percent of its total loans; and low-interest industrial and commercial working capital loans of one-year term or less accounted for 37.76 percent of its total loans. These loans lowered the agricultural bank's income by 292 million yuan.

At the same time that the income from loan interest was being lowered, because the greater part of the agricultural bank's loan sources were high-cost savings deposits and credit cooperative transfer deposits, the cost of deposits was much higher than the decrease in interest expenditure caused by a fall in the deposit rate. According to statistics, in 1990 Zhejiang agricultural banks' expenditure on deposit interest was 820 million yuan, 282 million yuan more than in 1989. The loss formed by this decrease and increase was only part of the total loss.

Because the scale of policy loans, including those of the specialized banks within the agricultural bank, is controlled, there has appeared a "deposit differential" in which deposits exceed loans. Surplus funds can only be transferred to the People's Bank, and the specialized banks' interest rate on People's Bank deposits is much

lower than the average rate of interest paid on the specialized banks' deposits. This also caused Zhejiang agricultural banks to pay out 20 million more yuan.

The difficulty in recouping a large amount of interest is also an important cause of the bank's losses. By the end of 1990 Zhejiang agricultural banks' remaining sum of receivable interest not yet received was 240 million yuan, and this year more than 95 million yuan has been added to that sum. Eighty percent or more of this sum was formed by bad debts as well as by loans to enterprises that have closed down. At the same time, the operational policy of the agricultural bank in recent years was bound to make its economic returns lower than those of other specialized banks. For example, in 1991 Zhejiang agricultural banks invested 25.3 million yuan in poor areas throughout the province, and most of the funds were put into some nonstaple food processing industries or cultivation and rearing industries in which results are slow. In 1991, under the circumstances in which the control of the scale of loans is still relatively tight, the situation in the funds formation work by the agricultural bank and all specialized banks is even more grim. At the same time, the guaranteed-value savings accounts of three or more years' term will come due in the second half of this year, and agricultural banks will see a peak in the cashing of savings accounts. For Zhejiang agricultural banks, which has already taken losses, without a doubt this will be a disaster.

In the past Zhejiang agricultural banks every year put part of the previous year's profits in the current year's credit funds operation. This year not only is there no such part of the profits, but also banks need to take out part of this year's credit funds to compensate for last year's loss. If this situation continues a vicious circle is bound to be formed. Because of the loss in 1990 the agricultural bank's retained funds, including its development fund and bonus fund, were a third less than in a normal year, thereby seriously affecting the bank's operations.

There are really many causes of Zhejiang agricultural banks' losses that are impossible for it to eliminate by itself. During my coverage of this story, the leaders of Zhejiang agricultural banks asked me to forward their suggestions to the relevant departments, which should actively consider countermeasures to reverse the situation in which the agricultural bank is operating at a loss.

### Shanxi Grain Area

91P30162A Taiyuan SHANXI RIBAO in Chinese  
10 Jun 91 p 2

[Summary] In 1991 the planned grain area in Shanxi Province is 49 million mu, at present the actual sown area exceeds 43,300,000 mu, a decrease of 700,000 mu from the same period in 1990.

### Shanxi Cotton Area

91P30162B Taiyuan SHANXI RIBAO in Chinese  
1 Jun 91 p 2

[Summary] The cotton area in Shanxi Province is 2,155,000 mu, an increase of 200,000 mu, or 10.2 percent

over 1990; and the area covered with plastic film is 1,183,000 mu, accounting for 54.8 percent of the sown area.

#### **National Cotton Area**

*91P30162C Beijing JINGJI RIBAO in Chinese*  
5 Jul 91 p 2

[Summary] According to the Ministry of Commerce, the cotton area this year is 94 million mu, a 13 percent increase over 1990.

#### **Yunnan Summer Grain Output, Procurement**

*91P30156L Kunming YUNNAN RIBAO in Chinese*  
11 Jun 91 p 1

[Summary] In 1991 summer grain output in Yunnan Province should reach 1.76 billion kilograms, an increase

of 65 million kilograms over 1990; and oil crop output should reach 110 million kilograms, an increase of 6,350,000 kilograms over 1990.

The summer grain area increased 8,000 hectares over 1990. Over the past two years, the irrigated area has increased 77,500 hectares.

By the end of May, Yunnan had procured 200 million kilograms of grain, and 63,420,000 kilograms of rapeseeds.

#### **Jiangxi Cotton Area**

*91P30156K Nanchang JIANGXI RIBAO in Chinese*  
18 Jun 91 p 1

[Summary] As of 17 June, the cotton area in Jiangxi Province exceeded 1,710,000 mu, an increase of 656,000 mu over 1990, and an increase of 210,000 mu over the planned area.

### Post-Reform City, Countryside Relations Analyzed

91CM0446A Beijing SHEHUIXUE YANJIU  
[SOCIOLOGICAL STUDIES] in Chinese No 2,  
20 Mar 91 pp 2-14

[Article by Yan Xiaofeng (7051 5135 6912), research fellow, Chinese Social Development Research Center, and Wang Hansheng (3769 3352 3932), professor, Sociology Department Beijing University, writing as members of Beijing University's 'Social Differentiation' Problems Team: "Looking at Structural Changes in Chinese Society in Terms of New Differentiation Patterns Between City and Countryside"; the team also included Lin Bin (2651 1755), Shi Xianmin (2514 2009 3046), and Cheng Weimin (4453 3634 2404), all from Beijing University's Sociology Department; Yang Weimin (2799 0251 3046), from the Chinese People's University's Labor Personnel Academy; and Chen Yingying (7115 1305 1305), from the Chinese Academy of Social Sciences' Sociology Institute]

[Text] *New changes have taken place in the dual character of China's cities and countryside during recent years. Both the homogeneity between the cities and the countryside, and the heterogeneity within the cities and the countryside have increased, leading to an intensification of the degree of differentiation of the members of society. The new urban and rural pattern can never revert to the old framework, nor is there development in the direction of a western-style stratified social structure. The differentiation of Chinese society today is a group differentiation, the differentiation between the cities and the countryside being locked in two different realms. Differences among the cities are widening, with a trend toward the localization of cities appearing. Within cities, an organizational differentiation is appearing as well as an individual differentiation that stems largely from organizational differentiation. The differentiation of rural society may be divided into high collectivization with low industrialization, low collectivization with low industrialization, high industrialization with low collectivization, and high industrialization with high collectivization. The writer believes that the deepening of reform has to begin with readjustment of the price scissors between industrial and agricultural products for gradual elimination of government financial subsidies to cities. Newly emerging rural structural elements have to be accommodated, with relatively equal opportunities and rights accorded the peasants.*

The distinctively dualistic structure of Chinese society and its changes are something that no one concerned with Chinese problems can ignore. Actually, the dual nature of cities and the countryside is putting a strong stamp on the steadily unfolding new pattern of reform.

For the 30 years prior to reform, despite every effort, the dual relationship between cities and the countryside always went round and round in an endless circle. Peasant communities wanted to cross the natural chasm that lay between them and city residents, but there were only limited avenues for doing so (such as joining the armed forces, and being hired for work), which were available to only an extremely small number of fortunate ones. This state of affairs continued until 1978. Reform brought opportunities to demolish this ossified relationship

between cities and the countryside. The "rural reforms" that began in 1978 and the "urban reforms" that began in 1984, although unable to completely reverse the dual pattern all at once, did deal a great blow to its substance and provided impetus for the formation of a new pattern of differentiation between cities and the countryside. The ways in which this new pattern differed from the old pattern may be summarized as follows:

A. The former "dualism" was an internally highly homogeneous, yet mutually very heterogeneous collection of differences, to which the terms "staff member and workers" and "commune member" might be applied to city people and rural people respectively. Although "staff members and workers" and "commune members" lived in two extremely different worlds, relatively speaking, their separate internal differences could be ignored. Even communities at the lowest level in the cities were far better off than communities at the bottom level in rural villages. The series of reforms since 1978 changed this "two big groups" pattern. The boundary line between one group and another is in the process of disappearing, while at the same time the heterogeneity within groups is showing signs of growing ever wider.

1. The land contract system and the rural industrial development policies have produced a change in status for the peasants and a diversification of their occupations. This has produced fringe communities in between the rural and city residents (such as "peasant workers," and "township entrepreneurs"). Naturally the stability of these new groups that have "metamorphosed" from the peasantry will be determined by the extent to which they become a part of the urban system. The emergence of overlapping communities has brought about a certain blending of the two urban and rural communities. For example, the regional differences between individual city and rural households are becoming more and more diluted. They are both known as "individual households" first and foremost.

2. Reform has brought about subtle changes in city and rural income. The differentiation of income between and within city and countryside best reflects this new pattern. Although reform cannot be directly equated with the increase in per capita earnings, at least the two are synchronous. The percentage increase in peasant per capita income since 1978 was faster for a time than the increase for urban residents; however, the "urban reforms" that began in 1984 again caused a reversal of the speed of urban residents' income growth. This was reflected in a "V" shape for the ratio between city and rural per capita income. This meant that the ratio between city and rural per capita income, which was 2.4:1 in 1978, narrowed for a time to 1.7:1 between 1983 and 1985 only to bounce back to 2.1:1 in 1989. (In 1989, urban per capita income was 1,260 yuan, and peasant per capita income was 602 yuan.)<sup>1</sup> Noteworthy are the enormous social distinctions hidden behind these average indicators. While the gap between city resident and peasant income was widening, a widening of the income gap was also taking place within city and within countryside. High income and low income communities appeared at the same time in both, but there were more high earning peasants than city residents. Analysis

shows that formerly in China, practically all of the 20 percent of high income households were concentrated in the cities and practically all of the 20 percent of low income households were concentrated in the countryside. Now, however, although virtually all of the low income households in the country are peasant households, a substantial number of the 20 percent of high income households are rich peasants.<sup>2</sup>

3. The increase in local government authority and the greater independence of rights and interests caused a regional differentiation of income, which was specifically manifested in a tendency toward urban localization and rural regionalization within the confines of townships and villages. Although the Gini coefficient is 0.23 for the income of city and town residents, and 0.3 for the peasants (1988 figures), this is lower than for both India and Malaysia, which are at an equivalent level of economic development. (Their Gini coefficients are 0.42 and 0.51). However, China's current, generally low Gini coefficient is an average of the average within the region plus the difference between regions. The Gini coefficient within the province is less than 0.2, but it is about 0.45 between provinces. The widening of income between one city and another shows up in coastal cities, particularly between the special economic zones, those cities specially listed in the plan, and inland cities. For example, in 1988, the portion of income that city residents specifically used for living expenses was 1,119 yuan, but it was 1,560 yuan in Shanghai. (This still was not the highest; the highest city was Shenzhen). In Beijing, Tianjin, and Guangzhou it was 1,440 yuan, but it was only 900 yuan for most cities in the western part of the country.<sup>(3)</sup> This income difference between one region and another showed up most clearly in the vast rural areas: In 1988, peasant family income in rural Shanghai, Beijing, Tianjin, Zhejiang, and Guangdong was about 1,000 yuan per capita (the highest being Shanghai, at 1300.96, which was four times that of the lowest, Gansu).<sup>(4)</sup> Peasant income in the aforementioned five provinces and cities was close to or greater than that of urban residents in general in places for which statistics are available. Furthermore, in southern Jiangsu and the Zhu Jiang delta, peasant income reached more than 2,000 yuan, a figure that residents of most cities cannot match.

The above regional differences represent a new city and countryside pattern that cannot be derived from the total Gini coefficient. If a figurative metaphor were to be used to depict these new changes, one might say that during the past 10 years of reform, the two large communities of cities and the countryside offset each other in heel-and-toe competition. On the one hand, the distance between the two communities widened, producing an increase in the degree of differentiation of the members of the whole society. On the other hand, the "front level" in the peasant community caught up with or surpassed the "middle level" in the city community, causing a tangled complex situation to emerge. To say nowadays that the cities and the countryside represent a sharply demarcated duality is not entirely accurate.

B. Changes in the mainstays and the foundation underpinning dualism. Maintenance of the old dual relationship

between the cities and the countryside relies on the state's compulsory organizational methods. The mainstay is big government, and the foundation naturally is not the principle of an economic division of labor and the market principle. Following reform, particularly following unequivocal implementation of the policies of the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, and the delegation of authority, this dual pattern will be maintained by the transformation of "big administration" (or "big government") into "small administration" (or "small government"). Relationships between the cities and the countryside will also change from being purely administrative and low-supply in nature to semi-administrative and semi-market in nature. In short, the present relationship between the cities and the countryside has been infused intensively with a commodity economy content. The change to "small government" as the mainstay of the dual relationship between the cities and the countryside has led directly to local differences in the relationship between the cities and the countryside. The demarcation line between the villages surrounding some cities that exert a powerful influence over surrounding areas as well as cities in which reform and opening to the outside world is vigorous is becoming increasingly blurred. (In the Shanghai area, for example, the consumption ratio between the cities and the countryside narrowed to 1.2:1 in 1987.<sup>(5)</sup> In remote western parts of the country economically characterized by "entrenched" or "import" industries, the process of "integrating" the urban and rural duality is only beginning. (The consumption ratio between city and countryside in such areas was still 3:1 in 1987.)<sup>(6)</sup>

No doubt the foregoing situations that have appeared in the new pattern of city and countryside relations, such as the regionalization of cities, the differentiation of separate township and village communities covering administrative zones, and the intertwining of the two large communities of the cities and the countryside have generated far-reaching effects for the rise of a new social structure in the future. The newborn city-countryside pattern can never return to the old framework; however, it may be firmly stated that the development toward a hierarchical social structure of clearly identified strata like that of the west is still premature. China is distinctive, and one of its distinctions is the distinctive relationship between its cities and its countryside. This means that China will take a distinctive path of modernization.

## I. Tracking Down the Origins

### A. China's Pre-1949 Dualistic Society

The origin and character of China's closed dualistic city and countryside system differs from that of the west and most developing countries. This distinctive relationship between the cities and the countryside may be traced back to feudal society. During China's feudal period, from the very beginning, cities were a "superfluity in the economic structure" of the country,<sup>(7)</sup> and despotic rulers used cities as political bastions to control the entire dynasty. The rise of cities might be said to have been more to accommodate

the ruler's control than for the development of industrial and commercial handicraft industries. During this period relations between cities and the countryside were not just for economic exchanges, but were rather in the nature of political dependency. Society was divided into at once both separate and related social systems: the upper stratum of the system being the city bloc with the royal court and officials (the native doctor stratum) at the apex, the lower stratum of the system consisting of far-flung rural villages with landlords and the local gentry as the apex. The landlords and the local gentry were the indispensable "intermediaries" through which state power controlled the countryside. The state machine might be said to have depended on the small-scale agricultural economy and the landlord system to walk on two legs. On the one hand, the state guaranteed and sustained the landlords' right to collect rents, while at the same time the state separated part of the agricultural income surplus from the landlords' hands through the collection of heavy rents and taxes. On the other hand, the state provided landlords as well as their descendants with the recurring imperial examination system as an enticement to gaining a powerful and influential status. This was because, as everyone is well aware, the path by which landlords could become wealthy and enter into feudal society's top-level urban system lay not in knowing how to farm, but in an official career and business.

Modern Chinese industry was an offshoot of feudal society's dualistic pattern. Contemporary industry appeared earliest in the armaments sector rather than in the light and textile industries closely related to agriculture. These armaments industries were run by the government at the outset (the operators frequently being high officials, big compradores, or big warlords). Foreign capital capitalized on the weakness of indigenous industry to make major inroads. It consorted with bureaucratic capital, concentrating largely in a small number of coastal cities. At that time, China's industrialization was limited to just these several cities. Most social wealth was also concentrated in the hands of foreign capitalists and several large comprador bureaucrats. At the same time, this lopsided industrialization left the rural villages in poverty and backwardness. Actually, Chinese society before 1949 already showed the duality between cities and the countryside generally found in developing countries (such as the surge into cities of large numbers of down-and-out peasants, and the creation of urban slums).

#### B. Post-1949 City and Countryside Dual Structure

New China likewise faced both an international and a domestic climate like that of developing countries in general. In order to avoid falling into vassalage or dependency in a "world system" like that of most developing countries, China had no choice but to take a path of closed industrialization (i.e., seeking accumulation for industrialization from within). The conditions limiting the path of new China's industrialization at that time were as follows: First was an inability to take the course of importing foreign capital because of the economic embargo of western countries; second, the weak indigenous industry inherited from old China made the provision of sufficient

industrial accumulations and a sound industrial structure impossible; thus, the diversion of surpluses from agriculture as a means of accumulation for industry became the only choice. This was not done through heavy rents and heavy taxes as is the case in most developing countries, but rather in a hidden form of relying on the price scissors between industrial and agricultural products. Attainment of this goal required the building of a series of new social systems and organizational supports. The "unit system" of cities as well as the formation through various organizational methods of the rural people's commune system laid the foundation for the subsequent duality between cities and countryside. The unit system used low wages, high welfare benefits, and factory employment to thoroughly "protect" urban residents. This centralization of diverse functions in a single organic system made possible further accumulations for industry. Although ideologically speaking, the people's communes were for the purpose of "guiding the peasants in taking the collective road," their actual function was to obtain capital from agriculture in order to lay the organizational foundation for maintaining the urban industrial system. In both the urban unit and the rural commune system, the immobility of production elements (particularly personnel) was a fundamental characteristic. A series of rigid social policies such as the household registration system, the labor employment system, and the personnel control system placed virtually all members of society in the completely different worlds of city and countryside for their entire lives. Every individual was organized without exception into a unit or a commune. The rigidity of the movement of personnel in China was also such as is rarely seen elsewhere in the world. Not only did each individual have either a city or a rural identity, but he or she also had a "unit identity" or a "commune identity." Thus, the closed city and countryside duality was retained as a "follow-on" to high speed industrialization during the period immediately following liberation. Two points requiring emphasis are as follows:

First, this pattern was not just the economic duality that economist William Arthur Lewis expounded, but was a social, cultural, and psychological duality that was concretely manifested as follows:

1. Rigid city and countryside identity barriers (namely the unit system and the commune system). Not only could individuals not flow into cities from rural villages, but their movement between one city and another and between one township or village and another was not permitted except under exceptional circumstances. Such a working personnel system of pegging people to a fixed position led to a series of socio-economic problems such as a waste of manpower resources, and the residence of man and wife in two different locations.
2. Dependence on the "unit" of members of society and a decline in individual responsibility. After a long period of being "protected" in the system, urban residents tended to become "aristocratic" and rigid about the benefits due them. (This rigidity about benefits produced a decline in city and countryside consumption for a time following reform, only to spring back.) Villager interest in working

hard also declined as a result of the "large common pot" provided within teams. Grain output remained at a standstill for more than 10 years.

3. Complete monopolization of opportunities by cities, taking them away from rural villages. Monopoly meant privilege and exclusivity. One example was not permitting rural areas to operate industries or businesses during the previous several decades. Small cities and towns, which might otherwise have served as "buffer zones" and connecting points in the dualism between cities and the countryside, also became greatly depressed as a result.

4. It was the relationship among the state, collectives, and individuals in the old relationship between cities and rural areas that had a crucially important effect on the new post-reform differentiation pattern. Prior to reform, individuals did not face the state directly but went through the collective, i.e., their "unit" or their "commune" in an indirect relationship with the state. There was a two-way vertical chain relationship that ran from the state to collectives, to individuals. A series of social measures that included state administrative control of individuals, welfare support, and medical insurance was affected through collectives. Although collectives were responsible for such a multitude of functions, they were not independent "components." Collectives had few independent benefits. Benefit incentives had yet to sprout.

Second, this duality was one of extremely high internal homogeneity and mutual complete separation. All rural people, no matter where they lived, enjoyed substantially identical social positions. They played the same roles, were subject to the same distribution system (the work point system), had an income that differed but little, and were identified in the same way, namely as commune members. All rural society was highly homogeneous and egalitarian. "Urbanites" were divided into the two basic groups of cadres and workers. Each group was internally also highly homogeneous. If an individual's status was that of a worker, no matter the kind of place he lived or the profession or industry to which he belonged, the kind of unit to which he belonged, the economic income method (the eight-grade wage system), his social position, and the role he played were not markedly different from others having the same status. Although there were different income schedules for the cadre group and the worker group, although there were differences between the two groups in authority, prestige and income level, and although there were different status systems, the differences among "urban residents" were small in comparison with the difference between them and the peasants. Thus, despite the differentiation between city and countryside of pre-reform China, society as a whole was static with slight differentiation, slow speed of differentiation, and ossified social mobility.

## II. Social Differentiation Between City and Countryside at the Present Stage

Reform evoked dramatic changes in China's social structure. Simultaneous with the further deepening of the duality of city and countryside, differentiation occurred in

the internally highly homogeneous existing city and rural groups, ultimately leading to a new duality.

By comparison with pre-reform, social differentiation during the present stage remains a group differentiation. Accompanying the change in the main regulation and control entity from "big government" to "little government," countless internally homogeneous and mutually heterogeneous groups took the place of the former three groups of workers, peasants, and cadres. While differences within these three groups widened, the tendency toward egalitarianism within these groups increased further.<sup>8</sup> In rural villages, the boundaries between these groups were analogous to administrative zones, varying degrees of differentiation taking place between one province and another, one county and another, one township and another, and even one village and another, and the differentiation among communities at separate levels greatly exceeded the differentiation within a given area. The boundaries between urban groups were organizations (units). Differentiation occurred not only among units of the same type, of the same ownership level, of the same profession and industry, and of the same sector, but units were also differentiated even within the same type, same ownership level, same sector, and same profession and industry. Although cities and the countryside shared this characteristic of having groups in social differentiation at the present stage, because of the limitations of the previous dualism in the social structure, differentiation between cities and the countryside was locked in two different areas. This caused a duality in the pattern and characteristics of differentiation in cities and the countryside.

### A. Comparison of City and Countryside Differentiation

City and countryside differentiation showed marked differences in the following several regards:

1. Like the shaping of the old duality, social differentiation at the present stage was also an outgrowth of the rule of the dual forces of administrative intervention and economic development. Although the state adopted a series of decentralizing measures in cities, yielding a portion of administrative regulation and control authority to local governments; however, as between the central government and local governments influence on the differentiation of "units" (such as enterprises) within cities, state administrative interference still played the main role. In other words, the same kind of unit in different cities (such as two enterprises within the same industry) still came under the centralized regulation and control of the central system (a ministry or a commission). The state was still a tremendous balancing device limiting differentiation between one city and another, as well as of units within cities.

In rural areas, however, the state's administrative regulation and control did not impinge upon township and village communities. In its implications, differentiation was basically an autonomous system in each township and village community. The regulation of social differentiation in rural villages was, at best, only among separate units (village and township enterprises) in the same township, but a higher level direct regulation and control entity could not be found for the differentiation among separate rural

communities. As a practical matter, this meant that the same kind of units in two different townships (such as township enterprises having the same ownership level and in the same industry) lacked the subordination and the ties of units of the same kind in cities; thus, the higher level administrative balancing force that limited differentiation did not exist among them.

These differences between city and countryside in regulation and control entities, regulation and control methods, and the degree of intervention resulted in differences between the two in speed of differentiation and degree of differentiation, which were greater in rural areas than in cities.

2. The first stage of rural reform consisting of the contract system enabled the peasants to change from being unitary agricultural producers to independent operators combining multiple roles in a single person. Operating units also changed from being "three levels of ownership, production teams being the foundation" to being "fully combined, households being the foundation." These two changes caused a change from the vertical chain of state-collective-individual to a large triangular relationship of the state, collectives, and individuals. Collective control of individuals was weakened in varying degrees in different kinds of communities, providing a prerequisite for differentiation among the members of society. The second stage of rural reform beginning in 1984, which was marked by development of rural industry and the introduction of the market mechanism, played a catalytic role in the differentiation among members of society. Acted upon by the dual forces of industrialization and markets, the differentiation of rural society entered the "fast track."

In cities, although reform meant a level-by-level delegation to lower level units of some big government powers, it did not mean a delegation to individuals within units as it did in rural villages. Individuals' dependence on their units not only did not weaken, but rather increased because of the increase in units' authority and their greater independence in providing benefits. The vertical chain among the state, collectives, and individuals remained. Thus, the differentiation of individuals was not as great as in rural villages in either speed or degree.

3. Rural reform brought about a direct link between the peasants and property rights. This meant that they could, through their own efforts, regulate the differences that differentiation generated among them. City residents remained the way they were before reform, having only an indirect relationship to property rights through their units. Separating from the unit they were in was the sole way for them to change their position; they had no other choice. They could only be at the mercy of the widening of differences between their own unit and other units without being able to take any action. Thus, by comparison with cities, the differentiation of rural society brought in its wake a greater self-realization.

4. The overall objective of urban reform was to increase enterprises' economic returns, individuals thus being able to make a direct correlation between the goals of reform and a rise in their personal income; therefore the overall

goal of urban reform was amorphously related to individual goals, while rural reform was expressed directly in a rise in peasants' economic income. In rural areas, the goals of reform coincided exactly with personal goals. This meant that the social differentiation of rural areas had a fairly strong "dynamic role." Many major rural reform policies went through a process of going from "rule breaking" to institutionalization. In this sense, the 10 years of rural reform was a creative peasant activity that went from bottom to top. By contrast, urban reform went from top down; consequently, social differentiation also had a fairly strong "passivity" about it.

5. The lack of coordination between social differentiation and people's usual value concepts (such as egalitarianism) at the present stage has given rise to doubts and worries. Even though rural social differentiation has been more vigorous and deeper than the degree of differentiation in cities since reform, doubts and worries caused by differentiation are much lower than in cities. One important reason intensifying city residents' doubts and worries is the contradiction between high social expectations for mobility and the actual low rate of mobility. With the differentiation among urban units as well as the appearance of some high income groups, urban residents' demands to change their unit, and their expectations for changing their status have become increasingly strong. However, a whole series of systems, including the household registration system and the unit-linked social security and social welfare systems have created a relationship whereby urban residents are completely dependent on their units; thus, the cost of an opportunity for mobility in their occupation, geographic location, or status comes extremely high. Actual mobility is very hard to achieve. By contrast, peasant mobility entails virtually no opportunity costs. Every kind of mobility increases benefits for the person making the change; thus peasant social mobility has been extremely lively since reform.

Yet another important reason accentuating urban residents' doubts and worries is fears of inability to compete. Contract system reform led to the collapse of the people's communes' organizational strength. Peasants began to deal with markets and the state directly as independent operators. They had a fairly strong psychological ability to bear the differentiation brought about by the equal competition market mechanism. After reform, city residents' dependence on their units became greater. Differentiation among individuals did not rely on equal competition with each other but rather was inseparable from the unit's standing. Because of the lack of market mechanism guidance, competition among urban units was frequently competition under unfair conditions. Differentiation brought about by such unfair competition made urban residents develop a sort of "relatively deprived" feeling from which mutual fears of inability to compete sprang, thereby intensifying the doubts and worries of urban residents.

6. The process of social differentiation is a process of social reconciliation. Differences in speed, degree, and characteristics of the differentiation between city and countryside determine their different reconciliation processes. The rural group differentiation was a social differentiation

analogous to administrative zones, as well as a differentiation among families in the same community. Thus, differentiation led to regional barriers. The peasants interests were cut up into large and small rural communities, which made for a fairly strong community and family sense on the part of the peasants. Urban group differentiation, by contrast, led to barriers of a trade, occupational and sectoral nature as a result of which urban residents have a fairly strong social stratum and sense of interest groups.

#### B. Urban Social Differentiation

Urban social differentiation at the present stage is a multi-level, interrelated and interlocking differentiation. This differentiation is manifested not only between one city and another, but also both among cities and among units within cities as well as among individual residents.

Differentiation between one city and another. Although there was a certain amount of urban differentiation prior to reform depending on the size of cities and their role in the national economy, because of the existence of the balancing role of that main central regulation and control body, the central government, there was very little differentiation between one city and another, but this limited differentiation did produce an effect on differentiation among individuals and organization in cities. The strengthening of local government authority and interests at all levels that reform occasioned, as well as actual policies toward different cities resulted in a differentiation of the formerly highly homogeneous urban system.

1. On the one hand, there was a widening of differences in the speed of development and the level of development between one city and another. Take the per capita income of city residents as an example. For cities of the same level, there was a 69 yuan difference between the highest and the lowest monthly per capita income to be used for living expenses in 1988 for a 1:1.9 ratio.<sup>1</sup> It is particularly noteworthy that the widening of this level of development and speed of development between one city and another is no longer what it had been prior to reform. It stemmed entirely from central government administrative intervention. In addition, it also stemmed from different government actions following the expansion of local government authority in all jurisdictions and the increase in their economic strength. On the other hand, and more importantly, it was also the beginning of the diversification of the social structure, ways of doing things, and the cultural outlook between different cities, most conspicuous of which was in a number of special economic zones and ordinary cities in which central government special urban policies appeared.

2. One particularly noteworthy characteristic in the differentiation among cities at the present stage is the tendency of cities to regionalize. This is an inevitable outgrowth of the greater independence of local government interests and the expansion of their authority. On the one hand, some of the control authority of units under direct central government jurisdiction has been delegated to local governments, and central government support for these units has weakened as a result of the decline in planning. On the other

hand, the expansion of local government authority has resulted in a strengthening of control and support for units that were all along under local government jurisdiction. Examples include protection of raw and processed materials, energy supply, and product sales markets, approval of investment projects, the allocation of foreign trade export shares, and the setting of welfare standards. In addition, local governments have used local government finance to build a number of new units entirely under their jurisdiction. The above three developments have resulted in a local title in the interests and behavior of urban enterprises and institutions.

3. One consequence of the regionalization of cities is the erection of barriers between one city and another. Another consequence is to make the differentiation between one city and another an important element affecting the differentiation of urban organization and individuals.

The differentiation of urban organization. Prior to reform, the state exercised level-by-level and sector-by-sector control over all society, which is to say a central and regional system of management. Local governments were under central government jurisdiction. Every specialized organization was either directly or indirectly subordinate to some primary government level organization; thus, every organization occupied a specific position in a pyramid-shaped organizational system. Differentiation within an organization was manifested largely in the differentiation of this stratum and differentiation among sectors. All organizations at the same level or in the same sector were rather highly homogeneous, and although there were certain differences in the authority enjoyed, the resources obtained and per capita income among organizations at the same level and in the same sector, there were no differences in organizational structure, ways of doing things, and implementation of regulations. Since reform, extremely great differentiation has taken place among organizations (units) that serve as the main bodies for urban differentiation, the principal characteristics of which are as follows:

1. Within the existing organization grade system, there has been a further differentiation of different grades and organizations in different sectors, which is to say that the internal structure, way of doing things, and the various regulations that an organization carries out have gone from being homogeneous to heterogeneous. At the same time, the heterogeneity among formerly highly homogeneous organizations at the same level and in the same sector has increased. Specifically, this means the following:

First of all, a view of the differentiation of government organization from the top down shows a sharing of authority between the central government and local governments, and between government at a higher level and government at a lower level. Looked at laterally, it shows a differentiation of departments that have economic control functions and purely administrative departments, as well as a differentiation of governments at the same level's ways of doing things out of consideration for their own interests and differences in the objective conditions they face. Second, a differentiation has occurred among government

organizations and specialized organizations at all levels that is characterized by a "separation of government administration and enterprise management, and the delegation of authority and granting of concessions. Finally, fairly great heterogeneity has appeared among specialized organizations and entrepreneurial units and public institutions resulting from their possession of resources and the former foundation following the delegation of authority.

2. Yet another marked feature of the diversification of organizations is the diversification of the kinds of ownership systems. In particular, the rise of a large number of non-governmental spontaneous organizations has changed the structure of the former social organization system.

3. Unlike prior to reform, the organizational differentiation of cities at the present stage has become an important factor determining individual differentiation (individual households, and those lacking a unit affiliation excepted). This means that the difference among urban residents stems primarily from differences among the units to which they belong. Urban residents' steadily increasing pressures to improve their personal social position and economic income fall on enterprises, particularly on unit leaders. As a result, on to of a unit leader's pre-reform main concern with "responsibility upward" has been added another burden of "responsibility downward." Furthermore, the pressures from below are more direct and real. Thus, tendencies such as "those at the top may have policies, but those at the bottom know how to deal with them," the excessive issuance of goods and bonus money, and incessant rivalries have risen as an accompaniment.

The differentiation of urban individuals. The differentiation of urban individuals has been group differentiation within units. This group differentiation has given rise to countless interest groups. The post-reform income distribution mechanism has changed from a government distribution mechanism to the co-existence of both a market and a government distribution mechanism. Those industries, groups, or individuals who fall under market distribution have a higher income level, and the income gap is also widening. Conversely, those groups or individuals who are limited solely to government plan distribution have a low income level, and the trend toward everyone receiving more or less the same income is becoming increasingly serious.<sup>10</sup> The group interest gap is expressed today in mostly the following ways.

1. A gap between those having fixed income and those having non-fixed income. Those having a non-fixed income resort to various improper practices to obtain "rebates," "discounts," "extra income," "benefit payments," etc, which are frequently much greater than their wages, and which have become one conspicuous evidence of social corruption.

2. The income gap among staff members and workers under different forms of ownership. The income of staff members and workers in civilian-operated companies, privately owned enterprises, and both foreign-owned and joint venture enterprises is usually more than double that of staff members and workers in enterprises under ownership of the whole people or in collective enterprises.

3. Income gap among different occupations. Earnings in certain "hot" occupations such as drivers of rented cars and tour guides are abnormally high.

4. Income gap among different trades: In 1985, income in the highest trade, the building trade, was 77 percent higher than in the lowest trade, textiles. In 1987, it became 90 percent higher.

5. "The inversion between mental and physical labor."

The two main features of the differentiation of urban individual are as follows: First is a lack of uniformity in social position, meaning a lack of uniformity of various positions in the same group. In intellectual groups, for example, social status is relatively high, but economic income is low. The income inversion between mental and physical labor is around 10 percent, and somewhat higher in large cities. In Shanghai in 1986, the average monthly wage of personnel having special technical skills was 106.80 yuan per month, while the average wage of Shanghai staff members and workers was 132.70 per month, which was 20 percent below the general level. Another example is households in the individual economy where the level of education is low but the income level is high. A survey that the third political and ideological work study class of the Shanghai CPC Committee Party School conducted of 4,839 households in the private economy of Nanshi District showed 43 percent as having a primary school education or less, 42 percent as having a junior middle school education, 14 percent as having a senior middle school or technical middle school education, and 1 percent as having a college education. The lack of uniformity in position that differentiation has occasioned is an important factor leading to the worry about ability to compete among urban residents.

Second is the differentiation inside and outside of the system. A kind of differentiation in cities that merits attention is that some members of society have left the system. This includes households in the individual economy, workers in privately owned and civilian-operated enterprises, and entrepreneurs. The behavior of these people is oriented toward the market. They are beginning to shape their own rules, regulations and outlook. The differentiation among them also differs from the differentiation of members of society within the system. This is a differentiation in which the individual is the unit that is also most likely to become a differentiation into social strata.

#### C. Rural social differentiation.

Rural social differentiation in China today is an outgrowth of the role of the dual forces of industrialization and administrative organization. The influence of industrialization on the social structure shows up mostly in differentiation of the social structure from the simple to the complex brought about by changes in the division of labor. Industrialization created a large number of new positions in society, thereby greatly opening up choices for the members of society. This was expressed largely in the diversification of occupations. The members of society were redistributed among social positions, thereby shaping a new industrial and professional structure. Nevertheless the effect of industrialization on the differentiation of society was influenced by the way in which industrialization was carried out. The former provided the basic

prerequisites for social differentiation, while the latter determined the direction and degree of differentiation.

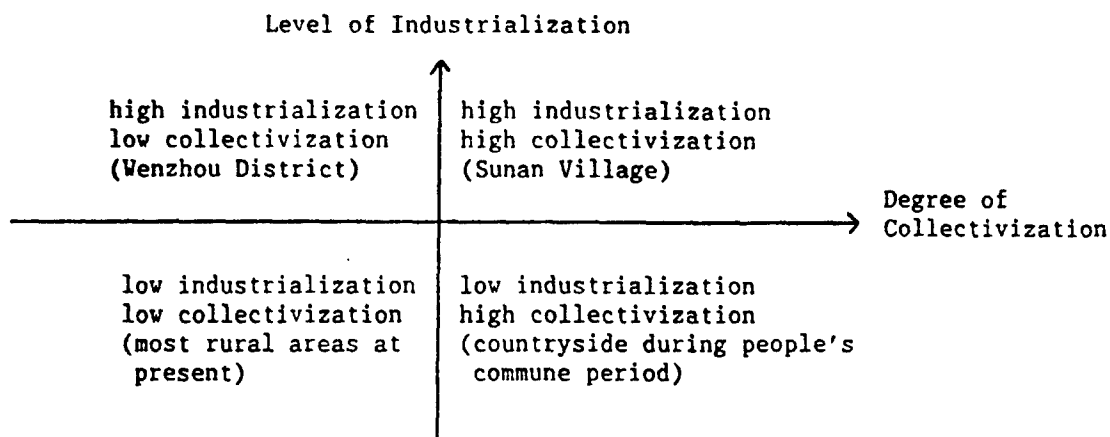
Methods used in industrialization were of two kinds. One was the use of complete market principles as the basic mechanism, the members of society, guided by market forces, freely flowing into the new social positions that industrialization created, a natural differentiation thereby taking place. The other kind was the use of various compulsory politicized organizational measures as the basic method, the members of society being assigned through administrative methods to new social positions, the differentiation being an outgrowth of artificial forces.

Under the first model (as in England, where industry originated), differentiation centered around individuals. Under the dual role of industrialization and market forces, the result of the free flow of production elements was the destruction of the social structure based on kinship and geographical relations. A class and social stratum consciousness that transcended geography and that was based on the recognition of similar status and interests began to take shape. Under the second model (as in China before reform), social differentiation centered around groups. Because of the emphasis on equality within groups, various organizational methods were used to restrain the differentiation of social positions. Because all key elements, including the members of society, were allocated according to plan, no free movement and association that transcended groups was permitted. To a certain extent, this reinforced the former blood and geographic relationships, avoiding differentiation into classes and strata, substituting groups and communities.

China's 10 years of rural reform was actually a process of gradual industrialization of rural villages. The different speed and ways of doing things that each jurisdiction adopted in this process produced differences in their social structure and form of social development. As a result, China's rural villages underwent a marked differentiation. It should be pointed out that the regional pattern of rural differentiation that exists today is not the same as the pre-reform echelon pattern that was an accretion of a long period of history and that gradually developed out of the

movement of a commodity economy from the west to the east. Although the new pattern maintains, and even intensifies, echelon distinctions in the eastern, central, and western parts of the country, the heterogeneity and degree of imbalance within these three regions has increased. As a result, within the "three great chunks" structure, are numerous small heterogenous chunks. Take coastal Zhejiang Province, for example, which is part of the eastern region. Its overall level of development is higher than that of the western part of the country, yet within its territory are areas in which economic undevelopment and a low level of industrialization like that in the western part of the country also exists. By the same token, Shaanxi Province in the western part of the country is a region having a rural economic development and a level of industrialization similar to that of southern Jiangsu.

Therefore, industrialization may serve as a variable for depicting rural differentiation. The level of a community's industrialization may be judged in terms of non-agricultural output value as a percentage of the community's gross social output value as well as in terms of the non-agricultural work force as a percentage of the total work force. Since rural differentiation is differentiation within administrative communities, government intervention is industrialization coming largely from government within that community, and community government control capabilities is in direct proportion to the economic strength it holds, the level of the collective economy may be used as yet another variable to depict rural differentiation. This is termed the "collectivization" variable. In terms of form, collectivization is the resource that a community shares as a percentage of total community resources. Actually, it is the degree to which the Party and government organizations directly control resources. One specific indicator for judging the degree of collectivization is the percentage of the community economy that the village and township economy holds, as well as the number of township and village enterprises as a percentage of the total number. On the basis of these two variables, China's rural villages may be divided into four types as shown in the following chart:



1. High collectivization, low industrialization type. Rural villages during the people's commune period were all of this type. People's communes were a form of community organization in which government and commune administration were one, and in which functions were merged. Leaders of the community at all levels concentrated Party, government, and economic authority in a single person, enforcing social control over all community members. "Collectives" controlled all community resources, which meant that community members were completely dependent on the collective. Community members could not move about at will. The undiversified industrial structure meant that the economic income of community members could come only from agriculture. The limitations of community agricultural income, and the equalized distribution mechanism resulted in only insignificant differences in community members' incomes. Except for the roles and incomes of cadres and the masses, which differed somewhat, community members were extremely homogeneous and equal. During this period, only a single unitary administrative organization existed for all rural villages, which established agencies in a completely undiversified way. They had the same management methods and development models, and the social structure of rural communities in all jurisdictions was also basically identical.

2. Low collectivization; low industrialization type. Rural reform, of which the contract system was a part, enabled a dramatic decrease in the degree of collectivization of the rural communities of the people's commune era, a direct consequence of which was a weakening of social control. The peasants became independent operators who combined diverse roles in a single person, and families became principal operating entities. This provided a prerequisite for the diversification of community members. Nevertheless, because of the low level of industrialization and the low degree to which markets developed, social differentiation was largely limited to the fairly low level of rural type society. Furthermore, the limited equal contracting of land alone did not lead to a large degree of differentiation of community members. Therefore, the degree of differentiation of society in such localities was not high. It was manifested only in limited income differences. Although a small number of "capable people" appeared, these "capable people" were either rural cadres who relied on their personal position to "become rich first," or else they were members of the technical elite who possessed proficiency in a particular line. However, because of the lack of organizational strength, the appearance of these "capable people" did not precipitate reform of the social structure.

At the organizational level, the crumbling of the collective economy in this type area brought about a weakening of administrative organizational strength, and the legality of cadre authority also faced serious challenges. As a result, they encountered unprecedented difficulties in fulfilling growing plans and fixed grain procurement quotas that the state issued. Numerous functions for which collectives had formerly been responsible were shelved such as the mediation of civil disputes, cooperation in farming, and social security. As a result of the lack of organizational support,

traditional organizational forces such as family clan organizations, religious organizations, and traditional economic organizations revived to a certain extent to perform the functions that had been shelved.

3. The high industrialization, low collectivization type. In the implementation of the two forms of industrialization (namely industrialization plus markets, and industrialization plus organization), these high industrialization, low collectivization types should be classed in the first form. Wenzhou is a classic example of this type. The rise of industrialization in this type area created a large number of new positions in society, which stimulated renewed groupings and mobility. The all-around promotion of the contract system brought about a rapid crumbling of the collective economy, and the gaining of independent operator rights by the peasantry as well as the community government's policy of "governance by doing nothing that goes against nature" cause a great weakening of the administrative strength of control elements. Thus, production elements of all kinds (including community members) freely moved around under guidance of the market mechanism as the division of labor required, thereby accelerating differentiation among the members of society. With the diversification of types of occupations, differences in income among community members also widened dramatically. This showed up conspicuously in the emergence of a small group of people who had accumulated large amounts of wealth very rapidly, while a small number of those who had failed to compete or were unable to compete became unable to feed and clothe themselves. At the same time, the social evaluation mechanism also underwent changes. Economic success became the main factor in evaluating social position. "Economically capable people" enjoyed increasingly high prestige in the community.

By comparison with the low industrialization and low collectivization areas, because of the dramatic decline in the degree of collectivization of these areas, rural cadres likewise lost the resources on which they relied to enforce social control. The chain that linked the peasants and the collectives was broken. Peasant's behavior was largely guided by markets, and social control through primarily administrative strength gradually gave way to natural market regulation and control. Rural grassroots level government organizations became paralyzed to varying degrees.

At the organizational level, large numbers of traditional family organizations held together by blood and kinship ties existed in these areas. In addition was the rise of specialized economic organizations that went beyond blood and kinship relationships and were founded on occupational relationships, as well as the germination of freely formed organizational groups based on economic principles. A separation also occurred between the administrative functions and the economic management functions of administrative organizations. The effect of the differentiation among organizations on the differentiation

of individuals showed up largely in occupations and role rather than in income. Individual income levels were determined by the market.

This type region is the one in which the differentiation of Chinese rural society is greatest and most vigorous today. Furthermore, this differentiation has become a part of the social structure. A sense of social standing has begun to supplant community sense based on blood and geographical affinity. The social structure is in the midst of change.

4. High industrialization and high collectivization areas are termed "double high" areas for short. This type areas is similar to the industrialized second form, the southern Jiangsu region being a classic example. As a result of the rise of township industries, the foundation for the collective economy in this type region has changed from agriculture to industry. This new type collective economy founded on industry is much stronger than the former collective economy founded on agriculture. Therefore, not only has there been no weakening of the collectives' ability to control members of the community, but rather it has increased to a certain extent. Community organization combines administrative functions and economic control functions in a single corpus, with social control extending to every aspect of community life. Because of the powerful restraining role of collectivization and the powerful intervention of community government, the community exhibits a fairly strong internal homogeneity. Even though different professional and occupational identities have appeared because of the development of industry, the differences in these identities stems entirely from the same community member identity. Among these community members who hold different occupational and professional identities, there is no substantive difference. Thus, the social differentiation of this type region is a kind of group differentiation. This group differentiation enables the community government to translate the community's interests into its own goals to the maximum extent; thus, all movements that may hurt the overall interests of the community will be vigorously interfered with by the community government. This leads to a certain degree of rigidity in the movement of key production elements in "double high" regions, and this rigidity erects row after row of barriers between communities that turns communities one after another into little "kingdoms."

### III. Problems and Prospects

#### A. International Comparisons and Several Conclusions

Industrialization has brought forth new relationships between cities and countryside, and different industrialization roads have led to different urban and rural patterns. Looked at in contemporary world history terms, we discover the existence of the following three major forms of development: the western form that uses agricultural surpluses as accumulations, gradually accumulating for industry and developing industrialization (alternatively termed the "in-born type"); the developing country form that relies on foreign capital to develop industry (alternatively known as the "dependent type"); and the socialist form, represented by China, that relies on administrative

measures to promote the prices scissors between industry and agriculture to sustain industrialization, for which reason some term this form the "inwardly closed type."

Industrialization first began in Western Europe as a natural historical process. Acting under laissez-faire national policies (at this time, western European states were purely arbitrators), the separation and differences between city and countryside were mostly due to the social division of labor. Industry and agriculture maintained what was basically a kind of market exchange relationship with each other in which the increasingly strong urban economy, although steadily swallowing up traditional agriculture, never placed agriculture in a dependent position. It was only after entering the present century that the relationship between western cities and the countryside came to be more expressed purely in terms of a division of labor, which is to say that agriculture was only an estate that stood as an equal to industry whose operating methods increasingly tended toward modern entrepreneurial style management. The concept of "peasants," which originally carried a strong bumpkin flavor, has disappeared in Western Europe. The way of life and the value orientation of both cities and the countryside have also become increasingly indistinguishable.

Meanwhile, from the very outset, the industrialization of developing countries faces a different international and domestic environment that differs from that of Western countries. Numerous developing countries find it very difficult to rely on their own agriculture for the development funds needed to get out of backwardness and poverty, so they have no choice but to seek assistance in the form of western capital. This creates a dependency relationship with the west. In the international division of labor, developing countries are at the lowest level in the hierarchy, and in exchange relationships, they are the exploited weak party. Moreover, that the cities of these developing countries force themselves on the rural villages is also an interest relationship similar to the foregoing; i.e., agriculture is in a low level in the social division of labor, and exchanges between cities and the countryside are exchanges of unequal value that sacrifice the peasants. On the one hand, most of the national wealth and the advanced scientific level organizations are concentrated in a small number of large cities, while on the other hand, the deprived rural villages remain suspended in traditional ways of live and forms of production. In most developing countries, this dual city and countryside economic structure is represented by lopsided urbanization and slums.

During the short several decades since liberation, China has carried out high speed industrialization to lay a foundation for a solid national economy. Looked at from this angle, the city-countryside system put in place to realize this strategy no doubt has its successful side. Nevertheless, we must also realize that the obstacles between city and countryside (particularly status obstacles) produced by this series of regulations have increasingly become complications in the development of society.

Naturally, since the distinctive city and countryside status that determine relations between cities and the countryside in China is different from that in western countries and in other developing countries, the problems faced are also different from those in other countries. For example, the social bipolarization so often found in some developing countries is not so apparent in China, and the group or unit differentiation that characterizes China is also rarely seen in other countries.

While assaulting and loosening up the old city and countryside pattern, reform also brought some characteristics of the new period at the same time. We believe that these new characteristics may generate far-reaching effects on future changes in China's social structure.

First of all, the appearance of a series of policies including "the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget," and the "delegation of authority and granting of concessions" have changed the former straight line relationship between the state, collectives and individuals to the present triangular relationship. The independent interest mechanism of collectives (meaning local governments, departments, units, and rural communities) has been switched on; the sense of local interest is unprecedentedly strong, and collectives have moved up from their former weak place to a prominent "real" position. Thus, the functions that the dual city and countryside pattern maintained are no longer borne solely by "big government," but have been spread among various "small governments" for fulfillment. At the same time, the boundaries of major interests between cities and the countryside have been cut up by the boundaries of the interests of numerous small "princes." These "princes," whose domain is administrative relationships, may be as high up as the provincial or departmental level, or as low down as in city units or village communities at the rural level. Second, the industrialization of the countryside has provided unprecedented opportunities to the peasants to change their status. Although, in an overall sense, most township enterprises are currently still in a position of depending on state-owned enterprises, and although the development and distribution of township enterprises in various jurisdictions is also uneven, nevertheless, the gross output value of township enterprises in 1989 accounted for 28 percent of total national industrial output value. Since 1987, the output value of rural industries has surpassed the output value of agriculture. Rural industry holds the best prospect of being a salient for breaking through the city and country duality barrier, and it is also the cheapest way of doing so (because it does not require a large investment by the state). On the basis of the foregoing, we can make the following judgments:

#### 1. Different Pace of Integration of Cities and the Countryside in Separate Jurisdictions.

Relationships between cities and the countryside under the new pattern can no longer be sweepingly generalized from the angle of the old dual city and countryside pattern. Instead, a region by region analysis must be made, which includes progress in "integration" of certain regions that is

much faster than in other regions. Statistics show that the narrowing of the gap between cities and the countryside in the three central government directly administered cities of Beijing, Tianjin, and Shanghai, and in the southeastern coastal region (particularly in the delta areas of the Chang Jiang and the Zhu Jiang) was far faster than in inland and remote border regions. The comparative per capita income of city and country people in Beijing, Tianjin, Shanghai, Zhejiang, Jiangsu, and Guangdong has narrowed to 1.5:1 (including 1.3:1 for Shanghai, the smallest). In inland and remote border regions, it remains at 2:1 or higher (including Qinghai, Tibet, and Ningxia—the highest, where it is 2.33:1). In the Chang Jiang and Zhu Jiang delta regions, urban industry is rapidly spreading to the neighboring countryside, and the boundary between cities and the countryside is becoming increasingly blurred. The per capita earnings of peasants in these areas is already greater than the per capita earnings of city residents in inland areas.<sup>12</sup> A look at the percentage of urbanization in these areas shows a city and town rate in coastal regions of 50 percent or more, while the rate for the country as a whole is only 26.23 percent.<sup>13</sup> This shows that in their capacity to take in and digest rural surplus labor forces, an extreme imbalance exists between one region and another throughout the country, and the degree to which integration of cities and the countryside has taken place is not identical.

#### 2. Difficulty Forming a Unified Nationwide Hierarchical System.

The points that we must clarify here first of all are as follows: First, the widening of the income gap does not necessarily lead at once to stratification (even though this gap may continue to widen in the future). Second, the plurality of the occupational structure (such as the diverse occupations in industry, business, transportation, construction, and the service trades, as well as in farming, forestry, animal husbandry, sideline occupations, and fisheries that appeared in rural villages following reform) also cannot be interpreted as being any kind of hierarchical structure. This is an important feature that sets China apart from the west and from most developing countries. China's coercive administrative intervention against limiting social differentiation means not only the existence of barriers between cities and the countryside (albeit these barriers are in the process of crumbling), but also clear administrative boundaries between one city and another, among separate units in cities, and among separate rural communities in the countryside. These boundaries and barriers, large and small, impede the advance of stratification, and chop up the sense of identity of people who belong to the same stratum. Sociology theory holds that social stratum is not only a structure, but even more contains a certain subjective identification coloration or sense of social stratum. Let us take an example. A worker in a township enterprises, no matter how superb his skill, and no matter how developed the enterprise in which he works (its performance may be higher than for most state-owned enterprises) is, in the final analysis, a peasant first and foremost. He cannot identify with workers of the same type in state-owned enterprises who "eat commodity

grain," nor can he identify with workers in the same kind of township enterprises in other rural communities. This is to say that this identification is engulfed by his sense of identification with the community in his own village.<sup>14</sup> One can predict that the formation of city and countryside stratification in China will be a difficult and slow process.

## B. Some Choices Corresponding to the New City and Countryside Pattern

### 1. Readjustment of the National Tilt Policy Toward Cities

National policies that emphasize cities and that "take much but give little" to rural villages have always been a focus of controversy on the issue of impartiality between city and countryside. It has been estimated that the state has taken 600 trillion yuan in capital from the hands of the peasants through the price scissors between industrial and agricultural products.<sup>15</sup> These funds have made an enormous contribution to the country's industrialization. Correspondingly, however, the state has invested less and less in rural villages, and this situation has not improved as a result of reform. In its investment and government financial expenditures, China has always largely inclined toward cities. For example, during the 1960's, investment in the capital construction of agriculture ran between 16 and 20 percent (as a percentage of total capital construction); during the 1970's, it was between 11 and 12 percent; and during the 1980's, it was between 3 and 4 percent. The tilt in government financial disbursements was similarly one-sided. Between 1978 and 1985, financial disbursements to agriculture declined from 13.6 to 8.3 percent.<sup>16</sup> By contrast, national government financial subsidies to urban residents increased year by year. (These subsidies included government "major subsidies," and also included "small subsidies" to separate units.) The readjustment of agricultural by-product prices narrowed the industrial-agricultural price scissors for a time, but the abnormal rise in prices of the means of agricultural production (chemical fertilizer and pesticides) in recent years has substantially offset peasant gains from the agricultural by-products price readjustment. This long-standing policy of "drawing blood" from agriculture has resulted in slowed development of the rural commodity economy. Meanwhile, long-standing subsidies to cities have resulted in "false fatness" for cities, which is to say "urban welfare sickness."

One negative effect of the old city and country dual pattern was that it tended to "aristocratize" city residents or make them rigid about their benefits. This showed up in their relativ inability to bear reform measures (relative to the peasants, that is), and their worries about being able to compete (i.e., "no one being able to bear hardships"). One major reason for this "aristocrat's sickness" was the complete "guarantees" that the state provided city staff members and workers for a long time, guaranteeing welfare, guaranteeing employment, and guaranteeing birth, old age, sickness, and death care, etc. According to statistics, the country's public consumption accounts for 17 percent of national income. Not only is this percentage much higher than for most developing countries, but it is higher than in medium and high income countries.<sup>17</sup> Furthermore, most of this public consumption is spent on urban residents,

various subsidies for urban residents amounting to 100 billion yuan annually, or one third of national fiscal income (including a 60 billion yuan subsidy to state-owned enterprises operating at a loss, and a 40 billion yuan non-staple foods subsidy for urban residents). Practice in reform shows that the greater and the wider the "guarantees," the poorer and the lower the zeal and motivation of the "guaranteed," and the more severe the psychology of dependency. Urban resident's fears about being able to compete are an important reason for the sharp inflation of group consumption. Therefore, only by gradually abolishing national treasury subsidies to cities will it be possible to regulate the long-standing imbalances between cities and the countryside.

### 2. The Substance of New Key Structural Elements in Rural Villages

Township enterprises are new key elements born of reform that suddenly rose in Chinese rural areas, and whose far-reaching significance is very great. The rise of township enterprises is more than a matter of providing peasants with a little more income. Its long-range significance is, first of all, the destruction of urban barriers to find the most suitable avenues for melding city and countryside relationships. Second, a vigorous group of township enterprises, and the rural enterprise workers corps to which they give rise, can bring certain "structural pressures" to bear on old state-owned enterprises and their staff members and workers who are lacking in vitality, forcing them to change and improve their performance. They can inject a "cardiac stimulant" into urban residents suffering from ever worsening "aristocrat's sickness" as a result of the "guarantee" system. Second is the matter of population pressures. It goes without saying that modernization will require the transfer of between 400 million and 500 million rural laborers. This means it will be necessary to build approximately 20 exceptionally large cities the size of Guangzhou in order to accommodate the current between 150 million and 180 million surplus rural laborers, and objective conditions will not permit this. Therefore, all we can do is shift our hopes to the development of rural enterprises. The substance of future new key rural structural elements is to provide peasants with relatively equal opportunities and privileges, and to put rural enterprises and state-owned enterprises on an equal footing.

### 3. Breaking Down Barriers Suiting General Methods to Specific Circumstances

One of the far-reaching effects of 10 years of reform on relationships between cities and the countryside is that the dual pattern is no longer guaranteed by "big government." Instead, relations between cities and countryside have been diffused to "small governments." The result has been the creation today in separate jurisdictions of a mixed bag of city and countryside types and the accompanying appearance of regional barriers. First, different city and countryside patterns require the enforcement of policies that suite general methods to specific local circumstances. This means the adoption of city and countryside integration policies of many different kinds for different areas. For example, for coastal areas in which township enterprises are fairly well developed and the integration of cities and the countryside has been fairly rapid, the redistribution role of government should be increased, while in

inland and remote border regions, a one-time government readjustment of distribution is required in order to stimulate the beginning of rural industry. Second is breaking down barriers and getting rid of "choke points" to enable the smooth flow of goods and the use of people to the full limit of their talents. At the present time, closed localism is inconsistent with the main pattern of opening to the outside world. No matter how developed the commodity economy of a given area, and no matter how integrated cities and the countryside, so long as the whole country lacks a unified market, this development will require payment of an extremely high price and be fraught with limitations. The walling off of key production elements between individual areas will ultimately impede progress in the process of integrating cities with the countryside throughout the country. This is another new post-reform challenge to city and countryside relations. Regional differentiation and barriers—this new topic that will affect China's future path of social differentiation—should arouse sufficient serious attention on the part of policy makers and theoretical research workers.

#### Footnotes

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#### Social Changes in Rural Areas

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[Text] *The social and economic reform that burst upon the Chinese countryside a decade ago has wrought profound social changes in rural China. The social structure has become more complex and diverse. Social conflicts and contradictions have been multiplying day by day, thus magnifying the importance of social organization. The writers analyze the characteristics of the current status of social organization and social conflicts in the Chinese countryside and propose measures to adjust and accommodate the various social forces.*

#### Raising the Issue

Rural reform in the past decade has caused profound social changes in the Chinese countryside. The complication and diversification of the social structure has been accompanied by rising social contradictions and conflicts. Social organization has become increasingly important.

A. The household system of linking remuneration to output has engendered structural changes in the Chinese rural community.

In the age of the people's commune, the peasant was strictly confined to the collective and was deprived of any opportunity for independent development. Personal development was blunted by the commune in two ways. First, the household production function was abolished. Instead,

the peasant participated in collective production activities as a commune member. Apart from some small farming tools, the collective controlled almost all the means of production. Millions of production teams, run by more than 50,000 communes through 700,000 production brigades, constituted the grass roots social structure in rural society. The second method in which personal peasant development was blunted was egalitarianism in distribution. Through egalitarianism, the commune denied personal differences in ability, skills, and cultural knowledge, and prevented commune members from utilizing their talents to the full. Distribution in accordance with work was replaced by eating from the big rice pot, the initiative of the peasant was suppressed, and the countryside languished in a simple, backward state for years.

Precisely by tackling the two points above, fixing of farming output quotas for each household stimulated rural development. To begin with, it put the necessary means of production in the hands of the peasant household, turning the latter into an independent commodity producer capable of self-development. The most basic unit in society, the family, began to develop on its own. Second, the big rice pot was smashed. The differences in talents between peasants came to be reflected in differences in production and incomes. The result of the independent development of more than 200 million peasant households is a Chinese countryside that has never been more diversified.

B. The development of the commodity economy, the development of rural industry, and the expansion of urban-rural exchanges have expedited the social realignment in the countryside.

First of all, the development of nonagricultural trades in rural areas has led to an occupational diversification among peasants. About one-third of the members of the entire labor force in the countryside are engaged in nonagricultural activities to varying extents. Occupational diversification has also led to excessive income gaps between peasants. There are millionaires as well as impoverished households. Increasingly, peasants in different strata are becoming more and more dissimilar in thinking, values, and behavior. The fragmentation of power, too, has been striking in the countryside. The highly centralized power structure is weakening, its authority now being shared by people with economic and technical resources. The family now enjoys more power at the expense of the collective. Young people are challenging the elderly for power. The old social hierarchy in the countryside is being replaced by a new structure. The quality of rural society is rising.

C. Organized forces and means of organization in the rural community have been changing.

The role of party and government organs in rural areas has been declining. In the past, party and government organs were almost the only organized forces in the countryside. They could do anything to impose para-military control on peasants. As the peasant household became the principal producer, it also reduced its dependence on party and government organs and cadres. In many ways, the peasant

is now required to make decisions on his own. In contrast, the rural cadre must engage in household production and devote less time to running public affairs in the countryside. Moreover, the tools of management they were accustomed to using in the past are now less effective. Meanwhile, other organized forces have emerged to challenge party and government organs and fill the void resulting from the lack of variety in party and government organized forces and their tools. These new forces consist of both traditional rural forces and forces that arose in the wake of rural development in recent years. First to make a comeback are the family and kinship groups with their natural coalescing force. In many places people are tracing their family tree, fixing the ancestral graves, and tracking down their clansmen. The family is performing a vital protective role for its members and regulating their behavior. Religion, too, has been quick to recover. Along the coast and in some inland areas, the momentum of Christian revival has been strong. In most areas religious involvement in public affairs is minimal. Most religious followers are women and the elderly with basically an other-worldly orientation. In other areas, however, religion has become a force that participates in social affairs and has begun to develop ties to party and government organs. Moreover, underground gangs have shown signs of gaining ground in a handful of areas. In the wake of economic development and the dissemination of science and technology, rural society has also given birth to brand-new organized forces: township enterprises in the economic arena, assorted technical association in the field of science and technology, and numerous associations based on the various trades. Other newcomers are a growing number of recreational organizations. These organizations have come into existence as peasants band together to pursue their goals. They involve the peasants not as complete individuals, but only in a particular role or when they perform some specific activity. The peasant is subject to organizational regulations only when he takes part in its activities. This is the essential difference between the new organizations and traditional organized forces.

Not only have organized forces in the countryside been diversified, but so have the means of organization. In the past, coercive administrative tools were primarily relied upon to maintain stability in rural society. The peasant was hemmed in by administrative tools in every way from top to bottom. Economic and cultural means were merely the appendages of administrative tools. Now, all kinds of organized forces have been gaining ground, each with their own organizing tools. Administrative tools, for instance, remain the principal tools for party and government forces, while clans and religion tend to rely more on sentiments and cultural traditions. As for the various forces that emerged after reform, they rely on economic interests and rules and regulations even more. Also, each organization supplements its principal tool with other tools. Besides administrative tools, for example, party and government forces now and then resort to economic and cultural means as well.

In short, a host of issues have arisen in the wake of structural shifts in rural society and social diversification.

The relations between peasants who have experienced such diversification and the array of social organizations are extremely complex. There are frequent conflicts between the various organized forces, which not only affects harmonious social development but also prevents the forces from fulfilling their role. How to harmonize the various social forces in the countryside under the new set of circumstances and establish a new social order lies at the heart of rural social realignment.

## **II. An Analysis of Social Organization in the Countryside at the Present Stage.**

Social organization has three major components: social organized forces, means of social organization, and the status of social organization. Organized social forces use a range of tools. The process of achieving a particular organized status is in effect the process of social organization. Also, differences in organized status affect the existence of organized forces and the application of organizing tools.

A. Organized forces are the social entities responsible for social organization.

There are three broad categories of organized forces in the Chinese countryside at the present stage: party and government organs, traditional organized forces, and new organized forces. To varying extents these organized forces play an organizing role at both the macro and micro levels in the rural community either separately or together.

The party and the government are the most powerful organized forces in the countryside. They are the most tightly-knit forces, forming a hierarchy of organizations from top to bottom. Their grass-roots organizations in the countryside receive strong support from the higher levels. Party and government organs control a majority of the resources; such as land, on which peasants depend for their survival and growth; most of the funds; and the circulation channels of numerous agricultural goods and materials in short supply. Moreover, they are closely related to other state organs. Hence their organizing role at the macro as well as micro levels. For 30 years after the PRC was founded, party and government organs played an increasingly important role and all other forces were reduced to insignificance. Such predominance stabilized social order but also stifled peasant vitality and hampered rural development. Rural reform put an end to the absolute control by such forces, thereby making room for the revival and growth of other forces in the countryside. Nevertheless, party and government forces retain their leading role.

The first to fill the slack vacated by party and government forces are kinship groups. Fixing farm output quotas for each household is an affirmation of the group of individuals related by blood. The family is made up of people related by blood or marriage. As the number of blood relationships increases, they form a network of kinship. The clan constitutes blood relationships institutionalized. Throughout history, the clan has been the basic force which peasants relied on for mutual help and security and intercourse. In the wake of rural reform, peasants began operating as separate individual households. When a

peasant runs into problems, the first people that come to mind are his relatives. As the role of rural administrative leadership declines, clan leaders step in to be the arbitrator in some cases. Intercourse between people related by blood or marriage increases. By maintaining intra-clan order, protecting clan members, and providing mutual assistance, the clan plays a social organizing role. However, the clan must necessarily interact with other kinds of forces. Particularly when it is a question of domestic discipline versus the law of the land, family interests versus national or community interests, the clan is apt to clash with and even go against other forces. If there are excessive conflicts between a clan and other forces and if it imposes too many restrictions on its members, it may weaken social integration in the countryside.

The role of religion has become notably more important, as seen in the building of temples and religious followers helping one another. By and large, religion attracts two groups of people. The first group consists of individuals with a fairly low social status and a limited capacity for participating in social affairs. They seek sustenance from religion and satisfy their desire for participating in social intercourse by taking part in religious activities. These people account for a majority of religious followers. They may have a limited understanding of religion but are highly devout. The second group is made up of people who resort to religion to help them achieve a specific objective. They may have a better understanding of religion but are not necessarily devout. Right now the conflicts between religion and other organized social forces remain infrequent. Nevertheless, the role of religion in social integration cannot be ignored.

In the course of economic development, a variety of nascent economic organizations and scientific and technical organizations are playing a bigger and bigger role. Generally speaking, most of these groups are single-function organizations, each being held together mainly by a shared trade or profession. The emergence of these new organizations is related to the birth of new social roles in the diversification of the rural community. These new organizations target people in a particular social role. They are loosely organized and involve their members only in their particular role. Thus they rarely conflict with other groups and organizations.

B. Complex relations among the various kinds of organized forces

The presence of a variety of organized forces has greatly vitalized the countryside. The peasant can build up a network of social ties in a diversified society, thereby achieving a broader kind of social satisfaction. To specialize in a trade, the peasant must keep in touch with others in the same trade. From his kinfolk, he can find a sense of closeness and mutual help he can't find anywhere else. In the old society with one single center of control, the peasant did not have as many opportunities for development as he does now. In a certain sense, the coexistence of a variety of forces helps elevate the level of social organization.

When a variety of forces exist together, they interact with one another in myriad ways. Simply put, there are these types of relationships:

**Co-existence.** The forces each remain within their own self-defined boundaries and seldom interact with the others. This is the case in several areas. The clan only manages the affairs within itself, such as weddings and funerals, but does not interest itself in public affairs, particularly party and national policies. Party and government organs at the grass roots, for their part, do not interfere too much in internal family matters, either. In many areas this is also the relationship between religion and party and government organs at the grass roots.

**Harmony.** Well water does not intrude into river water, but it is not possible for several kinds of forces to stay away from one another since they must interact with one another frequently. Harmony means two forces or more operating together through one of the forces. When kinship ties are fairly simple or when a particular clan exercises leadership, then there would be a measure of harmony between the clan, on the one hand, and party and government organs, on the other. Leaders often emerge from among members of the clan; at the same time, the clan relies on party and government forces to protect clan interests. Party and government organs at the grass roots, moreover, often need the clan to help them carry out certain party policies and goals. It is common for new forces to work together in harmony with party and government organs. This is true because all scientific and technical organizations must rely on assistance from party and government organs at the grass roots. For their part, party and government organs must diligently nurture these groups in order to develop the economy.

**Conflict.** This is a common relationship. As representatives of different interests, the various forces often clash with one another as they pursue their respective objectives. Party and government organs represent national interests and collective community interests that do not conflict with national interests. In theory, party and government organs are the highest organs of power in a community and are responsible for managing all affairs within the community. A kinship group, in contrast, represents only the interests of a group and is limited to the clan itself. An underground gang is similar to the clan and is a pseudo-kinship group. Despite their other-worldly spirit, religious bodies often organize mutual assistance activities among their members. When the interests of a group clash with those of the state or community, the forces representing them would call to arms their respective resources and engage in a fierce battle. In Henan, for instance, some Christians confronted a township government with demands for the return of a church. In Hunan, clansmen clashed with the government, demanding that an ancestral hall be returned to them. Also commonplace are inter-clan and inter-group disputes and arguments.

There are limits to any kind of organized force; some areas are beyond their reach. Even when they work together, the various forces leave certain areas untouched. In general, organized forces in the countryside today are not very

powerful. The clan is not much of a restraint upon young people. The number of people drawn to economic and S&T organizations remains very limited. Religious organizations are more other-worldly than worldly. And in recent years party and government organs at the grass roots have been somewhat weakened. The resultant void is precisely where society is badly at a loss.

#### C. How organizing tools work.

In the countryside organizing tools can be divided into four main types: administrative tools, cultural tools, economic tools, and personal prestige.

Administrative tools are characterized by command-and-obey behavior. Predominant for almost 30 years in the countryside, administrative tools have now lost some of their old effectiveness, but they remain the primary instrument of rural management in the hands of party and government organs at the grass roots. Administrative tools depend exclusively on administrative fiat and as such are not effective in organizing the peasants into organic entities and creating the need to obey. After the introduction of fixing of farm output quotas for each household, the peasant became an operator with his own decision-making authority. Since simple administrative tools no longer work very well, party and government organs at the grass roots more and more supplement them with other means.

When you use cultural tools, you use values, norms, customs, and conventions to advance your goals. The diversification of the peasantry has also led to the diversification of rural society and culture. Peasants in different strata more and more demonstrate their differences in values and behavior. Moreover, in the wake of the development of the commodity economy and the popularization of the mass media, the isolated village gradually began to break out of its cocoon. Over time, peasants became more and more similar to the outside world in their value orientation, code of conduct, and even way of life. Religion is an organizing force that depends mainly on cultural means. Other organized forces too often use similar means, consciously and otherwise. Culture works at a deep level to organize society by imperceptibly influencing public thinking. Once a culture has taken shape, it cannot be changed in a short period of time. Therefore we should truly appreciate the function of cultural tools and provide proper guidance.

As an instrument of social organization, economic tools are intended to increase or decrease a member's economic interests. In the past few years, economic tools have been playing an increasingly important role. Economic incentives include an increase in loans, tax cuts, or more quotas. The most common penalty is fines. Those who have more children than allowed or fail to plant crops in accordance with the plan are fined. In some areas, fining is not only a means but also an end. In addition, decreasing loans, lowering prices, cutting back on the supply of agricultural capital goods can also be economic tools of a punitive nature. The role of leaders in social organization must not be underestimated. The accomplishments, good image, outstanding abilities, solid knowledge, and extensive social ties of a leader help establish his standing among the

masses and influence their behavior in profound ways. There are two types of rural leaders. The first group consists of old branch secretaries, old party secretaries, and old team leaders who have been around forever. Their long years of conscientious hard work are recognized by society. But their ranks have been shrinking and some of them have left leadership positions. The second type consists of capable people who have come to the fore in recent years. Their success testifies to their abilities. They have provided the conditions in part for the enrichment of peasants, so they have won the support of some people. But rarely do these leaders, particularly some upstarts, earn society-wide esteem. In the wake of reform, the authority of leaders has come under challenge. The new circumstances are not favorable to the emergence of peasant leaders with broad influence.

Overall, because of the diversification of organized forces in the countryside, the application of organizing tools has exhibited new characteristics as well. First, the primary tool is being applied in conjunction with other tools. In the course of social integration, each organized force has its own principal tool. Party and government organs, for instance, stress administrative tools more while clans and religious organizations tend to rely on cultural influence and burgeoning economic organizations rely on economic leverage. At the same time, however, the forces also resort to other tools. Witness the attention party and government organs pay to cultural means and their reliance on economic leverage. Traditional organized forces put a lot of stress on economic means and personal prestige as well. The upshot is that the principal tool and other tools are now being applied together. It takes fines to enforce administrative orders. But you cannot fine somebody without coercion.

Second, economic leverage is becoming increasingly important in the course of social organization. For the peasant, economic interests are the most basic of interests. Whether we are talking about penalties or incentives, their effects are clear and prompt. After rural reform went under way, the pursuit of economic development has become the prime mission of society. Accordingly, all organized forces appreciate the importance of the economy and stress the application of economic leverage, particularly party and government organs at the grass roots with their command of most economic resources.

Third, the law is both a force and a tool. As a force, the law is universal. During the decade of reform, the notion that the law is the highest arbiter has gradually taken hold. Places where the various forces clash most openly and bitterly are often the most law-abiding places. However, judicial organs are still perceived by some people to be part of the administrative machinery, which undermines the standing of the law as the highest arbitrator.

D. Social organization in the countryside takes place at three levels: interpersonal organization, community organization, and social organization.

Interpersonal organization refers to harmonious interpersonal relations. Harmony in interpersonal relations is critical to community integration in the countryside.

During the era of the people's commune, the preoccupation with class struggle did severe damage to the relations among peasants. The work of some rural cadres was simple and brutal. The relations between the cadres and the masses were strained. In addition, the commune imposed stringent restrictions on the activities of peasants, preventing normal intercourse between them. In the wake of the adoption of general contracting, many new issues have arisen. Now that the households are allowed to operate on their own, disputes over land and water have multiplied. Because of the absence of a highly effective system, peasants fight over choice land, homebuilding sites, and the question of who should use water first. Peasants also argue more as their income gaps widen. With poor peasants envious and jealous of the rich, the peasants guard against one another. As they become more preoccupied with themselves, the traditional good practice of mutual assistance takes a back seat and interpersonal conflicts and contradictions multiply.

Community integration means the various forces in a community coexist in harmony. In the wake of reform, a flurry of social groups or quasi-social groups have emerged in the rural community, such as economic groups, kinship groups, and local groups. Whether or not social groups can effectively organize the peasants and whether or not social groups are organically integrated are pivotal to social integration in a community. For 30 years after liberation, peasants were absorbed into the people's commune, which was both a political and a social entity. Apart from the people's commune, which was party, government, and economic organization all rolled into one, and a number of organizations under its aegis, practically no organizations were allowed to exist. This went a long way toward ensuring social stability, but it also deprived the countryside to some extent of the vitality it needed for development. Among the current crop of organizations, most are held accountable to their members. Only when an organization furthers the interests of its members would they rally around it. However, most of these organizations have been in existence for only a short time and have a limited centripetal force. For them to have more coalescing power, the countryside must become more institutionalized first.

Social organization means the presence of smooth, harmonious relationships between the rural community and the external society, including the government and the city, and among rural communities themselves. In the past, urban-rural intercourse resembled one-way traffic: the state procured agricultural byproducts and allocated goods and materials required in agriculture. There were no direct contacts between the peasant and the city. Even his dealings with the departments in charge at the various levels had to go through the people's commune. In the wake of reform, contacts between the peasants and the outside world increased. To sell his products, the peasant needs to obtain information, knowledge, funds, and other resources. However, such dealings do not take place on a level playing field. Nor are they harmonious. In the course of modernization, peasants often find themselves in a weak position. Thus adjusting urban-rural relations and

establishing a commodity economy with its own rules is an important part of the simultaneous development of peasants and the outside world.

### III. Conflict and Accommodation

To resolve conflicts and accommodate all sorts of organized social forces, we must bring them into harmony with one another.

First, establish the status of the various organized forces in society. As the old era gives way to the new in the countryside today, it is inevitable for all forces to exist side by side. It is unrealistic to think that any one force can organize society on its own. Every organized force must be based on the practical function it serves in social life, establish its own social status, and, relying on other social forces, fashion its own behavior and define its own scope of operations.

From the perspective of social organization, traditional organized forces have their uses as well as drawbacks. Kinship is an objective relationship in society. The time-honored function of the clan is something other groups cannot replace. The role of religion, called the lubricant of interpersonal relations by some people, is also clear. Some religious tenets such as charity and generosity help improve interpersonal relations and overcome spiritual depression and emptiness. On the down side, religion shackles the initiative of its followers and clashes with other social groups. But these minuses can be curbed or modified by interest mechanisms and other social mechanisms under the stimulus of the commodity economy. As the prime forces for social organization, the party and the government play a role that cannot be underestimated. Assorted newly established organizations bring together numerous thoughtful people and represent the future direction of development of peasant society. Thus no one force is in a position to eliminate or substitute for other forces.

Second, establish an authoritative arbitration system. Given the reality in the countryside, enforcers of the law must still be the party and government organs with their well-understood status. In rural society, the concept of the law has shallow roots, there is a lack of legal knowledge, and some people charged with law enforcement distort the law. All this has prevented the law from being as effective as it should. Often party and government organs make the final judgement in place of the judiciary. If the judgement proves unacceptable, the conflict will drag on. Only preserving the dignity of the law and ensuring the fairness of law enforcement, therefore, can turn the law into the final and most authoritative arbitration system.

Third, further socialist democracy and institutionalize the channels for conflict resolution. In recent years, socialist democratic construction in the countryside has borne its first fruit. Villagers' self-government committees have been set up at the village level. Village cadres are being elected by villagers democratically. Both practices have

advanced the sense of socialist democracy among peasants. Social integration requires the active participation of members of society to ensure social cohesiveness.

In an organized society, the important thing is to establish channels for resolving conflicts and contradictions. Since these channels are acceptable to most peasants and different organized forces, conflicts can be resolved through them and conflict accumulation and escalation avoided. The law is a tool for resolving conflicts. But so is consultation. Through communication, a common understanding may be reached and the conflict resolved.

Organization is an ongoing process of accommodation. When a force conflicts with other forces as it tries to achieve its own goals and pursues its own interests, it must modify its own behavior and resolve the conflict. Organization does not mean making the conflicts disappear. Accommodation is a process whereby old conflicts are resolved only to be replaced by new ones. What organization does is no more than ameliorating conflicts in the interest of new development at a higher level. Such new development includes the realization of more material interests and an improvement in mental health and psychological well-being. In the context of the rural community, organization manifests itself as a stable society, a peasantry that is mentally healthy and takes an active part in community and public affairs, sustained economic development, and organized forces existing in harmony with one another.

### Progress Report on "Five Inspections" Campaign

91CM0449A Beijing ZHONGGUO JIAOYU BAO  
[CHINA'S EDUCATION] in Chinese 14 May 91 p 2

[Unattributed article: "A Report on Education Work in Elementary, Junior High, and Senior High Schools in Six Provinces and Municipalities, and on the Progress of the Second Five-Inspections Campaign"]

[Excerpts] In order to consolidate the gains achieved in last year's "five inspections" campaign and to help the various localities to set about in a practical manner to solve problems, the State Education Commission issued an announcement in March 1990 asking all provinces, autonomous regions, municipalities under the direct jurisdiction of the central government, and cities listed individually under the state plan to implement a second "five inspections" campaign. The main goal was to find out what had been done to rectify the problems discovered during last year's "five inspections" campaign. The main focus was on the ethics work in elementary and middle schools. At the same time, the repeat investigations focused on other issues as required in individual localities. The repeat investigations were primarily carried out by the various localities themselves. From September through November of 1990, the State Education Commission carried out random checks on the progress of the repeat investigations in Heilongjiang, Tianjin, Zhejiang, Hubei, Sichuan, and Shaanxi.

Herein is a report on the progress of the repeat investigations:

**I. Strengthening ethics work in elementary, junior high, and senior high schools.**

[passage omitted]

The second "five inspection" campaign in these six provinces and municipalities shows that there are still inadequacies in elementary, junior high, and senior high school ethics work:

1. It has developed very unevenly. There are big differences between different regions, different schools and even between different classes in the same school. Some localities have not placed enough stress upon implementing "Some Views of the State Education Commission Regarding Further Strengthening of Ethics in Elementary, Junior High, and Senior High Schools." They have not kept up in their guiding philosophy or in their work, nor have they awarded top priority to ethics in the schools. Some teachers and students (primarily senior high students) still have some deep-level problems which have not been resolved. We must improve the targeted nature of ethics work in elementary, junior high, and senior high schools, and we must strive for real results.

2. The factors which interfere with ethics work in elementary, junior high, and senior high schools are still quite pronounced. In particular, the single-minded efforts of schools to increase the percentage of students who go on to a higher level of schooling is a very severe problem. For various reasons, society continues to take the percentage of students who go on to a higher level of schooling as the primary standard by which to judge the performance of a school and its teachers, which brings much pressure upon schools. Some schools have established a system of all-day entrance exam cramming. This system is becoming more and more widespread, and local authorities have not taken serious action to curb the situation. This has interfered with and weakened ethics work, and it has affected our ability to fully implement the educational program.

3. The ranks of ethics workers must be consolidated, filled out, and improved. In some places the ranks of ethics workers are not stable because local authorities are not carrying out the relevant policies. Teachers of courses on politics in some junior and senior high schools never see documents issued by the central leadership, and they seldom hear reports on the current situation, so they lack theoretical guidance and ideological weaponry. The most urgent task at this time is still to cultivate a group of elementary, junior high, and senior high school principals and to train key cadres for ethics work.

4. Getting ethics to permeate into every area of teaching and into every activity is a big problem, and there is an urgent need to take effective steps to strengthen guidance.

5. Labor education and the establishment of labor and labor skills courses is still a weak link. Many schools have not provided the proper teachers, teaching materials, or

facilities for labor courses or labor skills courses, so it is impossible to offer courses that meet the requirements of the education program.

**II. Education funding, teacher compensation, and the repair of dangerous school buildings.**

Last year's "five inspections" campaign showed that the policy of increasing education funding has basically been carried out. The repair of dangerous buildings in elementary, junior high, and senior high schools has led to marked improvements, and the salaries of elementary, junior high, and senior high school teachers have risen significantly. However, the lack of education funds continues to be a major problem. Appropriations for education within the budget account for an excessively low proportion of local fiscal expenditures. Public funding accounts for a decreasing proportion of total spending on elementary, junior high, and senior high school education. The salary levels of elementary, junior high, and senior high school teachers are still on the low side in comparison with the other 11 sectors of the economy which are subject to ownership by the whole people. The state policy calling for raising the salaries of elementary, junior high, and senior high school teachers has not been completely implemented in some provinces and autonomous regions. Compensation for teachers in private schools tends to be low, and there are instances where salaries are not being paid on time. For teachers in public schools, housing is hard to find, medical expenses are not reimbursed by the government, and jobs are very hard to find for their sons and daughters. All of these problems have given rise to bitter complaints.

Local governments everywhere have formulated measures to rectify these problems, and after more than a year of work, varying degrees of progress have been made.

Among the six provinces and municipalities subject to this year's second "five inspections" campaign, Tianjin, Heilongjiang, and Zhejiang have all continued to implement the "two growths" policy adopted by the state in 1989. In particular, universal education expenditures have grown at an even faster pace. In Zhejiang Province, educational expenditures provided for within the budget rose 14.28 percent in 1989 over the previous year, while universal education expenditures grew by 16.47 percent. In Tianjin, education expenditures grew by 15.7 percent in 1989 over the previous year, while universal education expenditures grew by 20.06 percent. However, education expenditures grew by a smaller percentage in three provinces than did overall revenues.

The percentage of revenues directed to education expenditures provided for within the budget dropped in four provinces, and in one province it dropped by 2.53 percentage points.

The second "five inspection" campaign in the six provinces and municipalities showed that the proportion of education expenditures for elementary, junior high, and senior high schools provided by public funding increased somewhat from 1988 to 1989 in five of the provinces and municipalities. The increase was relatively large in some of the provinces, but the shortage of funds in elementary, junior high, and senior high schools is still a serious problem. Public funding per capita in some elementary, junior high, and senior high schools in some provinces in

1989 only amounted to 21.4 and 44.4 percent, respectively, of the national average. Faced with a shortage of funds, some schools have had no choice but to levy charges upon students. Excessively high charges are one reason why schools have lost students.

In the last year, every locality has acted in accordance with the spirit of the Shandong Conference by formulating policies and measures aimed at establishing multiple channels for raising funds for education. Education inputs provided by sources outside the budget have gone up everywhere and have become one of the most important sources of funds for education. In all of the six counties and municipalities where the second "five inspections" campaign was carried out, education inputs provided by sources outside the budget accounted for about one-third of total education inputs. However, multichannel education fundraising efforts have developed in a very uneven manner. The amount of additional funding raised for rural education has been insufficient, and these additional funds have been used improperly in some cases. There is still a lot of potential for society or individuals to raise funds for schooling. As for how to make the best use of the central government's policy of multichannel education fundraising, the various localities need to improve their understanding of this policy and adopt effective measures.

In the last year, these six provinces and municipalities have made great efforts to implement state and local policies calling for higher salaries for elementary, junior high, and senior high school teachers. Tianjin, Heilongjiang, Zhejiang and Shaanxi have all basically implemented policies governing the salaries of teachers in public schools. Building upon this foundation, Tianjin has issued mountain district subsidies to teachers in the mountain districts around Jixian. Some counties have also raised the salaries or subsidies of some of their teachers. However, because education inputs provided for within the budget are not enough to offset personnel expenditures, two provinces are still in arrears on public school teacher salaries, and one of them still owed 27 million yuan at the time of the second "five inspection" campaign. Compensation conditions vary widely for private school teachers. In some localities, private and public school teachers are getting equal pay for equal work. In January 1990, Tianjin began implementing its "method for providing living stipends for private school teachers in rural areas of Tianjin who have left their posts for reasons of old age, sickness, or injury." The problem of support for private school teachers in their old age has basically been resolved. However, compensation for private school teachers is too low in most localities, and five provinces are in arrears to one degree or another on private school teacher salaries. One province is in arrears in 55 of 69 (79.7 percent) of its counties (municipalities). Another province owes its private school teachers 20.974 million yuan.

After the "five investigations," local governments at every level showed great concern for the lack of funds to pay the medical expenses of elementary, junior high, and senior high school teachers; the difficulty of finding jobs for these teachers' children; and the shortage of housing. These

governments have taken measures to gradually correct these problems. Because different localities enjoy different levels of economic development and have put out differing amounts of effort, the situation in this regard varies widely. Teachers and other employees of public elementary, junior high, and senior high schools in Tianjin are to be treated in the same manner as local party and government cadres; medical expenses paid by the individual are to be reimbursed by the state in the same year. In most counties (prefectures) in five provinces, not all expenses can be reimbursed, and these provinces are in arrears to various degrees. Some counties are unable to give public school teachers the same treatment as local cadres. Teachers and other employees of elementary, junior high, and senior high schools still have a severe problem getting medical treatment and getting reimbursed for medical expenses. With respect to the housing problem for teachers, Tianjin has formulated some concrete policies. The municipal government built 36,600 square meters of housing for elementary, junior high, and senior high school teachers in 1989, which amounted to 40 percent of all housing construction. In addition, counties on the outskirts of Tianjin raised their own funds to build 18,000 square meters of teacher housing. In housing assignments to the general public, priority is being given to elementary, junior high, and senior high school teachers, who have been awarded 26,520 square meters of housing space. In 1989, a total of 81,120 square meters of housing space was provided to teachers and other employees of elementary, junior high, and senior high schools. This was an outstanding accomplishment and was praised by the State Education Commission. The municipal government of Jiamusi [0163 2606 2448] City in Heilongjiang decided in 1985 to appropriate one million yuan of its discretionary funds every year for the next five years to build housing for elementary, junior high, and senior high school teachers. This year, Jiamusi is beginning to implement its second five-year-plan. The average area of living space per teacher in that city now exceeds the citywide average by one square meter. Shaoxing County, in Zhejiang Province, built four dormitories for retired teachers, thus providing housing for 230 families. The county also initiated a plan in which teachers are scheduled to receive one-third of all housing space. From January through June of this year, a total of 2.115 million yuan was invested, and 8,410 square meters of teacher housing was built. The shortage of housing for teachers in these localities has been somewhat alleviated. However, from an overall standpoint, the amount of housing available to teachers in these six provinces and municipalities is low in comparison with society at large, and the problem is quite severe in some areas. Difficulty in finding employment is still a big worry for elementary, junior high, and senior high school teachers. The government at every level should place great importance upon this problem, deal with it in a unified manner, and solve it step by step.

Since the "five investigations" campaign, progress has been made in the repair of dangerous buildings in elementary, junior high, and senior high schools everywhere. In particular, the meeting on "raising funds for education and

improving school conditions," which was held in Shandong, spurred localities everywhere to mobilize the masses to raise funds for the purpose of running schools and improving school conditions. The results were excellent.

Tianjin has declared a war on dangerous school buildings in 1990. It is determined to keep the percentage of dangerous buildings under 1 percent, and in 1991 will begin a regular program of maintenance. Sichuan Province is further perfecting its system of multichannel education fundraising, and it has begun to implement the following policies: "imposing a 1 percent tax on taxable construction investments for repair of dangerous elementary, junior high, and senior high school buildings"; "using interest-free government-sponsored loans to repair dangerous elementary, junior high, and senior high school buildings"; "imposing added duties on specially controlled commodities primarily for the purpose of repairing dangerous elementary, junior high, and senior high school buildings." Some localities combined the issue of repairing dangerous buildings with other issues, including investigations into efforts to improve school conditions, the readjustment of the geographical distribution of schools, the building of laboratories, and the building of standardized schools. They have formulated unified plans, are making different levels of government responsible for different aspects of the program, and are overseeing implementation of the plans. In the last year, Heilongjiang province has purchased 240,000 school desks and chairs, 390,000 teaching instruments, 100,000 pieces of equipment for physical education, and 2.65 million books. Yingcheng Municipality, in Hubei Province, has combined the issues of repairing dangerous school buildings and standardizing construction, and from 1989 through September 1990, 49,640 square meters of floor space had been built for the schools. By that time, 89 percent of all schools had "the six peripherals" (a wall surrounding the school, a main gate, a playground, rest rooms, laboratories, and standard school desks and lighting). The 208 schools which had achieved standardization accounted for 58 percent of the total number. Localities everywhere are also paying great attention to establishing and perfecting systems for school building management. The systems include provisions for testing job applicants, quality inspection, dispensing praise for work well done, and keeping records and reports on the condition of school buildings. In order to assure that the condition of school buildings would be properly assessed, and that they would be repaired in the proper way, the Municipal Education Bureau in Tianjin Municipality is working together with the Housing Assessment and Design Institute to train key cadres to carry out this project. The city has also formulated "Temporary Regulations on Managing Elementary, Junior High, and Senior High School Buildings in Tianjin."

Repair of elementary, junior high, and senior high school buildings continues to enjoy the broad support of the masses, particularly rural peasants and cadres. They have enthusiastically donated their funds, labor, and materials, and many heroic and moving deeds have been performed. From January through June of 1990, 1.5 billion yuan were

raised throughout the country via various channels, and many of these funds were donated by the masses.

In the past year, there have been great successes throughout the nation in eliminating dangerous elementary, junior high, and senior high school buildings. In 1989 there were over 30 million square meters of dangerous elementary, junior high, and senior high school buildings throughout the country, which accounted for 4.44 percent of total school building floor space. By September 1990, this figure had declined to 3.07 percent. This figure also declined in the six provinces and municipalities subject to the second "five inspection" campaign. In Tianjin and Sichuan, it declined by 3.61 and 3.5 percentage points.

There are still 21,997,300 square meters of dangerous elementary, junior high, and senior high school buildings throughout the country, and the second "five inspection" campaign in the six provinces and municipalities indicated that the percentage of dangerous school buildings in some provinces is still too high. In some provinces, there is no steel reinforcement at all in 20 percent of all elementary, junior high, and senior high school buildings. In some provinces, there are still 4 million square meters of dilapidated school buildings, or 15 percent of total school building floor space. In some places, there are still no desks or lights. In most schools, there is no coordination between the teaching instruments, books, and physical education equipment.

There is still an arduous task in front of us if we are to repair dangerous buildings and improve conditions for running the schools, and we cannot take this task lightly. We must continue to increase funding for development of educational infrastructure and we must continue to raise funds through multiple channels to resolve the problem of dangerous buildings and to improve conditions for running schools. Our schools must be sturdy and long-lasting. In localities where the conditions for running schools have improved, school management practices must be strengthened.

### **III. Controlling the dropout rate among elementary, junior high, and senior high school students and correcting the problem of exorbitant fees.**

During the 1988-89 school year, the national average dropout rate among urban and rural elementary school students was 3.2 percent, which was 0.1 percent lower than the year before, so the dropout rate among elementary school students has been brought under control for the time being. This same figure for junior and senior high school students was 7.3 percent, which was not only not lower than the figure for the previous year, but was actually 0.6 percent higher.

Since the "five investigations," governments at every level and education departments have placed great importance upon controlling the dropout rate among elementary, junior high, and senior high school students, and they have included it as one factor in goal-oriented management and the work position responsibility system. The government is fulfilling its role as a macromanager and coordinator. It

has further strengthened internal management of education. It is taking a practical approach to the entire student body, earnestly seeking to help students who have problems going to school. They have strengthened management of attendance records and established a system of reporting dropouts. Some localities have exempted students with economic hardships from paying fees, or they have given them necessary subsidies.

Due to the efforts of all parties concerned, the national average dropout rate for urban and rural elementary, junior high, and senior high school students in the 1989-90 school year dropped relatively sharply. The average among elementary school students was 2.37 percent (0.83 percentage points lower than the previous year). The rate among junior high students was 4.84 percent (2.46 percentage lower than the previous year). The average dropout rate among elementary, junior high, and senior high school students in the six provinces and municipalities subject to the second "five inspection" campaign this year was lower than last year.

The dropout problem among elementary, junior high, and senior high school students has basically been brought under control, and the dropout rate among the students is decreasing at the vast majority of elementary, junior high, and senior high schools throughout the nation, but the situation is very uneven. The dropout rate among junior high students is too high in some places, while in other places the rate is too high for elementary school students. The rate is too high in both categories in some other places. Statistics on all 29 provinces, autonomous regions, and centrally administrated municipalities indicate that there are 13 provinces and autonomous regions (44.82 percent) where the dropout rate among elementary school students is above the national average and that there are 11 provinces and autonomous regions (37.93 percent) in which the rate among junior high students is above the national

average. Dropout rates vary widely. We will have to make ceaseless efforts to control the dropout rate among elementary, junior high, and senior high school students.

Government organs and related departments at every level attach great importance to the problem of exorbitant fees. The six provinces and municipalities subject to the second "five inspections" campaign have all formulated and issued documents on the subject, issued clear regulations calling for rectification of the fees charged by elementary, junior high, and senior high schools, and readjusted fee structures by an appropriate amount. They have also organized to monitor the situation in order to assure that reasonable fees are charged, unreasonable fees are eliminated, and excessive fees which have been collected will be returned in a timely manner. The elementary, junior high, and senior high schools where the work teams from the second "five inspections" campaign worked have basically been able to charge fees in accordance with the requirements of higher ranking government organs. During the second "five inspections" campaign, it was also discovered that fee structures are too high in some localities. An important reason for this is that education inputs are insufficient; public funding is negligible, and sometimes is even nonexistent. At the same time that government at every level is formulating and enforcing a standardized fee structure, it should study deeply into the problem of insufficient education funds in order to solve the problem and assure that the "Compulsory Education Law" will be implemented. The "five inspections" campaign of last year made reference to the problem in some localities where schools charge high fees to accept repeat students and students outside the regular plan. This problem still exists in the six provinces and municipalities that were subject to the second "five inspections" campaign. The problem is even growing more severe in some localities, and it has elicited close scrutiny. [passage omitted]

## NORTH REGION

### Hebei CPPCC Committee Work Report

SK1306142291 Shijiazhuang HEBEI RIBAO  
in Chinese 19 Apr 91 p 2

[Text] On the morning of 18 April, at the Fourth Session of the Sixth Provincial Committee of the Chinese People's Political Consultative Conference [CPPCC], Wang Zuwu, vice chairman of the provincial CPPCC Committee, delivered a work report on behalf of the Standing Committee of the provincial CPPCC Committee. Following are excerpts of the report:

In 1990, under the correct leadership of the provincial CPC committee, the provincial CPPCC committee continued to hold high the two banners of patriotism and socialism, and conscientiously implemented the "CPC Central Committee's Opinions on Persisting in and Perfecting the System of Multi-party Cooperation and Political Consultation Under the Leadership of the CPC" as well as the guidelines of the national united front work conference. By closely focusing on the central work of the provincial party committee and the provincial government, the provincial CPPCC committee also extensively united CPPCC members, members of various democratic parties, and the personages of various circles to conscientiously perform their functions of political consultation and democratic supervision and to enhance their level of participation in and discussion of political affairs, thus making positive contributions to further stabilizing the overall situation, to achieving success in economic rectification and in-depth reform, to promoting the building of the socialist material and spiritual civilizations as well as the building of the socialist legal system, and to accelerating the peaceful reunification of the motherland.

After the promulgation of the "opinions" and the convocation of the national united front work conference, the provincial CPPCC committee convened one after another the meeting of chairman and vice chairmen, the meeting of Standing Committee, and the forum of CPPCC members and the personages of various circles to study and comprehend the essence of the guidelines in a timely manner in order to reach unity in ideology and understanding. In line with the guidelines of the "opinions," the provincial CPPCC committee established even closer ties with various democratic parties, and positively created conditions for them to participate in and discuss state affairs. When drawing up work plans and launching major activities, the provincial CPPCC committee and its various special committees always reported the situation to various democratic parties in a timely manner, and strengthened coordination with them. Various special committees and pertinent democratic parties also jointly conducted investigations of such issues as market slump, moral education of primary and middle schools, and the current situation in traditional Chinese medicine.

During the past year, new headway was made in the work of consultation and supervision; this was a result of further strengthening of the functions of consultation and supervision and improving the quality of consultation and supervision. First, the provincial CPPCC committee

strived to conduct consultations before making policy decisions. Last year, before the convocation of the party congress, the provincial CPPCC committee organized pertinent persons to conduct consultation and discussion of the draft, solicited opinions on the work reports submitted to the party congress, and then set forth opinions for revision and supplementation. When the provincial government was formulating the Eighth Five-Year Plan and the 10-Year Program, the provincial CPPCC committee participated in consultation in a positive and enthusiastic manner. In line with the basic direction of ideology with regard to the Eighth Five-Year Plan and the 10-Year Program, the provincial CPPCC committee called a joint conference including the economic committee and the science, education, cultural, and public health committee as well as the 11th meeting of the sixth Standing Committee to conduct consultation and discussion, raising many valuable opinions and suggestions. Before the convocation of the second plenary session of the fourth provincial party committee, the provincial CPPCC committee called some Standing Committee members living in the provincial capital to a forum to discuss the proposals on the focal points of the 10-Year Program and the Eighth Five-Year Plan formulated by the provincial party committee, and to offer many opinions and proposals for revision. Second, the provincial CPPCC committee enriched the consultation content of the Standing Committee, and enhanced the committee's level of participation in and discussion of state affairs. On the one hand, in line with the central work of the provincial party committee and the provincial government, the provincial CPPCC committee defined, as early as possible, the subjects under consultation and discussion by its Standing Committee so that every Standing Committee member might make preparations in line with these subjects as early as possible. On the other hand, the provincial CPPCC committee integrated the discussion subjects of the Standing Committee with the titles of investigations of the Standing Committee, and brought the investigation reports to the Standing Committee for discussion in order to give play to the role of the overall functions of the Standing Committee. Third, the provincial CPPCC committee adopted measures to improve the quality of motions and the quality of handling motions. During the past year, the provincial CPPCC committee received a total of 643 motions from its members. By the end of this March, a total of 636 motions, 98.9 percent of the total, were handled, with their answers given to persons or units concerned. Of the total motions under handling, 215 motions, or 33.8 percent, had already been concluded; 297 motions, or 46.7 percent, were adopted and incorporated into plans for handling in the future; and 124 motions, or 19.5 percent, were not adopted, with their explanations given to units or persons concerned.

During the past year, in line with its own characteristics, the provincial CPPCC committee conducted investigation and inspection of 17 special subjects, of which 14 had their investigation reports written and submitted to the provincial party committee, the provincial government, and

departments concerned. In conducting investigation and inspection, the committee primarily grasped the following three issues:

1. The issue of overall policymaking in economic rectification and in-depth reform. With the industrial structural readjustment as the focal subject of investigation and study, the committee organized a special investigation group, which wrote some investigation reports within one year and five months, and submitted these reports to the provincial government in the form of proposals for the chairman's meeting.

2. The issues which had an important bearing on the province's economic construction. The first issue was the inspection of the mountain areas which had been developed by applying scientific and technological achievements. By conducting a long-term investigation of the 19 mountainous counties and 21 villages in 10 prefectures and cities, and by inviting responsible persons of appropriate departments to conduct discussions and appraisals, the committee basically learned the problems in the construction of mountainous areas, wrote some investigation reports, and offered opinions and proposals with regard to guiding ideology, the leadership system, and pertinent policies and measures. The second issue was the investigation of problems in cotton production and marketing. The committee conducted an overall investigation and analysis of the history and the current state in the province's cotton production as well as the problems existing in cotton supply and marketing, and then offered countermeasures for solving such problems.

3. The hot issues with regard to stabilization of the overall situation. In the first half of last year, the provincial CPPCC committee, along with Shijiazhuang, Handan, and Baoding city CPPCC committees, conducted investigations of the living and ideological conditions of workers and staff members of enterprises which had stopped production completely or for half the time, and made proposals for strengthening the labor management of such enterprises, for preventing such enterprises' personnel who are waiting for jobs from flowing to society, and for helping such enterprises solve practical problems and restore production. In the second half of last year, the committee organized its members to inspect the province's situation in improving social order through comprehensive efforts, and then offered the suggestion of formulating local rules and regulations as quickly as possible.

In line with the characteristics and superiority of the CPPCC, the provincial CPPCC committee further strengthened the work of establishing friendly ties with our compatriots in Taiwan, our compatriots in Hong Kong and Macao, and with overseas Chinese residing abroad [hereafter called the "three types of compatriots"]. During the past year, the committee received a total of 118 "three types of compatriots." Comparing last year with the previous years, there was an increase in the number of the "three types of compatriots" received by the committee, in the number of the compatriots from Taiwan, and in the number of noted figures. To enable the "three types of compatriots" to understand the province's situation in

developing the export-oriented economy, after the third session of the sixth provincial CPPCC committee, the committee organized its members residing in Hong Kong to inspect and visit nine Sino-foreign joint ventures in Shijiazhuang City. These members offered some valuable opinions and suggestions for accelerating the development of the province's export-oriented economy.

During the past year, the committee collected historical data covering 1.2 million characters, compiled and published "Hebei Province's Cultural and Historical Data" in four volumes, and made arrangements for the compiling and publishing of the "Selected Series of Hebei Cultural and Historical Works," a large-scale series of cultural and historical books. In addition, the committee strengthened the contacts with and the guidance to city and county CPPCC committees, positively promoted city and county CPPCC committees to establish and strengthen the consultation and supervision system, and made the number of the counties and cities (districts) which had formulated the provisional regulations on consultation and supervision rise from 141 at the end of 1989 to 167 in 1990, accounting for 92.3 percent of the total.

The year 1991 was the first year of implementing the 10-Year Program and the Eighth Five-Year Plan. During this year, the general guiding ideology for the work of the provincial CPPCC committee is: To conscientiously implement the guidelines of the seventh plenary session of the 13th party Central Committee and the second plenary session of the fourth provincial party committee; to continuously implement the "CPC Central Committee's Opinions on Persisting in and Perfecting the System of Multiparty Cooperation and Political Consultation Under the Leadership of the CPC," the "CPC Central Committee's Notice on Strengthening United Front Work," and the guidelines of the speech made by General Secretary Jiang Zemin at the national united front work conference; to hold high the banners of patriotism and socialism; to extensively unite and organize CPPCC members, democratic party members, and various personages to conscientiously study and implement the "Outlines of the People's Republic of China's 10-Year Program and the Eighth Five-Year Plan for the National Economic and Social Development," and to take an active part in the economic construction chorus by focusing on economic construction and the work priorities of the provincial party committee and the provincial government at each stage to make new contributions to consolidating and developing the province's political stability and unity, to promoting the socialist modernization as well as reform and openness, to perfecting the socialist democracy and legal system, and to promoting the peaceful reunification of the motherland.

We should continue to implement the CPC Central Committee's "opinions" and the guidelines of the national united front work conference, and further consolidate and develop the patriotic united front. We should persist in the system of holding joint conferences participated by secretaries general of CPPCC organizations and democratic parties; we should continue to look for qualified persons from democratic parties and from among the non-party personages, and then invite them to work for the CPPCC

in a planned manner; and we should establish the system of inviting democratic party members, people's groups, and representatives of various circles to a forum once every two months, with the participation of leading comrades of the provincial party committee and the provincial government, to exchange opinions with regard to the major issues of common concern in order to promote friendship. We should vigorously conduct friendship activities, expand the patriotic united front, and organize and mobilize members to positively conduct the work of strengthening friendly ties with the "three-type compatriots" in order to make positive contributions to promoting peaceful reunification.

We should strengthen study and work, and constantly improve CPPCC members' political quality and their level of participation in and discussion of political affairs. By carrying forward the CPPCC's fine tradition of paying attention to organizing study among CPPCC members, in line with the unified arrangements of the provincial CPC committee, we should organize and encourage CPPCC members and democratic party members to profoundly study, on the basis of voluntary participation, the fundamental tenets of Marxism-Leninism-Mao Zedong Thought, to study the party's line, principles, and policies as well as the current political affairs, and to study the guidelines of the seventh plenary session of the 13th party Central Committee and of the second plenary session of the fourth provincial party committee. We should pay attention to training CPPCC members in order to enable CPPCC members to constantly improve their ideological and political expertise and their expertise in participating in and discussing political affairs, to become more conscious in persisting in the four cardinal principles and opposing bourgeois liberalization, to become more confident of socialism, to enhance their sense of responsibility as being the masters, and to display their intelligence and wisdom and make positive contributions to reform and construction.

We should take an active part in the "economic construction chorus" and offer advice to and exert efforts in the province's economic construction. Centering on the work arrangements of the provincial party committee and the provincial government, we should continue to vigorously conduct investigation and study of major issues which have a bearing on the province's economic construction. We should attach importance to investigation of the following several issues: The investigation of the situation in accelerating the economic development of the areas around Beijing and Tianjin, the investigation of the economic efficiency of the textile industry, the investigation of the province's trend in development of fruit production, the investigation of the social situation and implementation of regulations governing business relations with foreigners in coastal open areas, the investigation of ways to put to use the role of retired people, and the investigation of the province's ranks of teachers and the medicare situation in rural areas. At the same time, we should positively create conditions and open up channels for conducting service activities of various forms in order to make contributions to helping invigorate Hebei through

science and technology, to invigorate the economy, to import funds, technology, equipment, and talented persons, and to develop the province's export-oriented economy.

We should comprehensively improve work quality, and strengthen the functions of consultation and supervision. We should make good arrangements in a planned way for the content of consultation and supervision of chairman meetings, Standing Committee meetings, and plenary sessions, by closely centering on implementation of the province's Eighth Five-Year Plan and the 10-Year Program. In line with the central work of the provincial party committee and the provincial government at respective stages, we should accurately select subjects under consultation, voluntarily strengthen the contacts with the provincial government and pertinent departments, and frequently invite pertinent responsible comrades to introduce the province's political, economic, and cultural situation. At the same time, we should organically combine major discussion subjects with the investigation titles of special committees, and give full play to the major functional role of consultation and supervision. We should actually improve the quality and practical results of investigations of special subjects. In conducting such investigations, we should give prominence to focal points and improve the quality of investigations and studies so that the investigation and study results may produce a great impact among the province and may play a positive role in promoting the democratic and scientific nature of the policy-making of the provincial party committee, the provincial government, and departments concerned. We should organize CPPCC members to take an active part in the supervision in the fields of the economy, politics, and industrial and commercial administration. We should actually grasp the motions work, and strive to improve the quality of motions and the quality of handling motions.

We should successfully hold the provincial CPPCC work conference, and actually promote the self-construction of the CPPCC. The provincial CPC committee plans to hold the provincial CPPCC work conference in July. This is the first of its kind in our province. We should make good preparations for this conference in line with the disposition of the provincial party committee and we should successfully propagate and implement the guidelines of this conference in order to make new headway in the province's CPPCC work under the new situation.

We should further strengthen contacts with and guidance to city and county CPPCC committees. In line with the provincial party committee's opinion on establishing CPPCC liaison centers in various localities, we should help various localities in establishing and perfecting such centers, in formulating provisional regulations governing the work of local liaison centers, in further defining respective duties, and in rationalizing the relations among different sections in order to give full play to their role in linking the provincial CPPCC committee members with city and county CPPCC committees. We should continue to attract chairmen of city and county CPPCC committees to participate in plenary sessions and Standing Committee meetings of the provincial CPPCC committee in order to

communicate opinions between high and lower levels. At the same time, we should strengthen guidance to the work of city and county CPPCC committees.

### **Inner Mongolia Standing Committee Work Report**

*SK2006073891 Hohhot NEIMENGGU RIBAO  
in Chinese 4 May 91 pp 1,3*

[Text] Entrusted by Chairman Batubagen, Butegeqi, vice chairman of the regional People's Congress Standing Committee, gave a work report of the regional People's Congress Standing Committee at the Fourth Session of the Seventh Regional People's Congress. He said: Since the Third Session of the Seventh Regional People's Congress, the Standing Committee has made the most of its role as a local organ of state power in implementing various policy decisions of the Third Session of the Seventh Regional People's Congress; the Committee maintained and developed a stable and united political situation in the region, safeguarded the smooth progress of economic improvement and rectification and the deepening of reform, promoted the building of socialist material and spiritual civilizations, and strengthened the building of socialist democracy and the legal system.

1. It maintained close ties with deputies and the masses of people of various nationalities and fully manifested the role of the people's deputies. In accordance with the work emphasis of the regional People's Congress Standing Committee and the central work tasks of the regional party committee, the chairmanship meeting discussed and determined the grass-roots work connection points of the chairman and vice chairmen. In 1990, the chairman and vice chairmen went deeply to various leagues and cities and more than 20 banners and counties one after another, and the Standing Committee members also went to the electoral districts to inspect their situation in carrying out the People's Congress work and to study their existing problems, to sum up experiences, to hear opinions and to solve problems. During the past year, the Standing Committee strived to put to use the role of the people's deputies. First, it conscientiously organized deputies of the National People's Congress [NPC], and the regional deputies to conduct inspections; second, it provided an accurate and true basis and materials for political discussions of the NPC deputies; third, it conscientiously and successfully handled the motions, suggestions, criticisms, and opinions raised by deputies; fourth, it worked together with the People's Congress organizations at all levels to establish ties with deputies at various levels and helped them solve some practical problems.

2. We strengthened the legislative work and provided the legal guarantee for the region's economic construction, improvement/rectification, reform, and opening up. During the past year, in line with the development of the region's political, economic, and cultural undertakings, the Standing Committee took economic construction as the central task, deliberated and adopted 15 local laws and regulations, including the deliberation and approval of seven local laws and regulations formulated by Hohhot and Baotou Cities.

3. It strengthened supervision over the implementation of laws and the work of the administrative, judicial, and procuratorial organs. During the beginning of last year, after finishing the work of inspecting the state administrative, judicial, and procuratorial organs and law-enforcement departments at and above the banner and county levels across the region to see how they enforced the 10 laws and two regulations, the Standing Committee issued a "Circular on Conscientiously Handling the Law Violation Cases and Problems Discovered During the Law-Enforcement Inspection" in order to consolidate the achievements in law-enforcement inspection work. The Standing Committee sent work groups to Ih Ju League, Bayannur League, Wuhai City, Batou City and other localities to conduct inspection and give supervision over the handling of law violation cases and problems, enabling the law-enforcement inspection work to be carried out conscientiously and realistically. At the same time, the Standing Committee heard and discussed 18 special reports and situation briefings given by the regional People's Government and the regional Higher People's Court.

4. It strengthened guidance over the end-of-term election work of the People's Congresses of banners, counties, sumu, and townships, and did a good job in building their political power. From October 1990 to the end of March 1991, the end-of-term election work of the People's Congresses of 100 banners, counties, autonomous banners, cities without districts, districts under the jurisdiction of the city, and 1,561 sumu, townships, nationalities townships, and towns across the region were successfully completed. This end-of-term election helped to enhance the sense of socialist democracy and the legal system of the broad masses of cadres, to safeguard and develop the stable and united political situation, and to promote the production of industry, agriculture, animal husbandry, and various work.

5. It strengthened and improved investigation and research work. First of all, in accordance with the unified plan of the regional party committee and in line with the characteristics of the work of the regional People's Congress Standing Committee, the Standing Committee members deeply immersed themselves in reality to acquaint themselves with the situations of the various city, banner, and county People's Congresses and the People's Congress work offices of various leagues, gave them guidance, and held talks with deputies at all levels and the masses of people. Second, the full-time committee members conducted investigations and study in line with the suggested agenda before the holding of Standing Committee meetings, enabled the Standing Committee meetings to combine investigation and study with deliberation, supervision and legislation, and enhanced their level of political discussions. Third, the committees and general offices under the Standing Committee also conducted investigation and study in line with their own work.

In referring to this year's work, Butegeqi said: The year 1991 is the first year for the state and the autonomous region to implement the 10-Year Program and the Eighth Five-Year Plan, and is a year for continuing the economic improvement and rectification and the deepening of

reforms. During this year, the work emphasis of the regional People's Congress Standing Committee is: 1) Continue to strengthen legislative, investigation and research work. We should carry out our work in line with the Constitution, the law on regional autonomy for minority nationalities, and the local organic law. In accordance with practical needs and possibilities, and in connection with economic improvement/rectification, reforms and opening up, we should promote a sustained, stable, and coordinated national economic development; we should uphold and improve the people's congress system; and we should step up efforts to formulate local laws and regulations which give major influence to the region. 2) Realistically strengthen supervisory work and strive to enhance the quality of political discussions. We should purposefully examine the resolutions, decisions, and normative documents of the regional people's government, the regional higher people's court, the regional people's procuratorate, and the people's congress of the

next level and its standing committee, and we should promptly correct their contents which go against the laws and the regional local laws and regulations. 3) Further strengthen ties with deputies and our self-cultivation. We should organize groups and deputies to conduct inspections and investigations on the issues in which the masses of people are greatly interested, including the implementation of the region's 10-Year Program, the Eighth Five-Year Plan, economic improvement/rectification and the deepening of reforms, agricultural and animal husbandry production, checking "unjustifiable collection of charges, fines and levies," carrying out the building of clean politics, eliminating the "six vices," and institutionalizing the work system of the deputy groups. We should conscientiously and successfully carry out the work of extensively collecting motions from deputies, further improve the work of handling and replying to motions, suggestions, criticisms, and opinions raised by deputies, and regularly listen to the views of deputies and fully display their role.

**Premier Hao's Technology Upgrade Strategy**

91CE0451A Taipei TIENHSIA [COMMON WEALTH]  
in Chinese No 118, 1 Mar 91 pp 48-55

[By Ch'en Hsiu-hsien (7115 0208 6343): "The Later Era of Li Kuo-ting (One): Hao Po-tsun's S&T Army"]

[Text] Premier Hao Po-tsun has a body of new troops promoting science and technology.

Commanded by Premier Hao, this contingent includes in its S&T ranks newly appointed Executive Yuan S&T advisor Huang Hsiao-tsung [7806 1321 1350] and Minister Without Portfolio Kuo Nan-hung [6753 0589 1347] and, more importantly, is relying on the support of Presidential Political Advisor Li Kuo-ting [2621 0948 7844], with his 40 years of broad-based experience in finance and economics and in science and technology, to keep the great banner of Taiwan's S&T administration flying.

After three years of adjustments, domestic S&T leadership appears to have entered the later era of Li Kuo-ting. It has gone from the strongman system of one-man leadership established prior to Li's retirement to a team led by Premier Hao marked by cooperation and joint management.

These three members specifically reflect Premier Hao's attempt at S&T administration. The tradition established by Li Kuo-ting of applied science and technology which stresses talent and seeks economic efficiency has been restrengthened. In the past, Huang Hsiao-tsung cooperated with Hao Po-tsun with respect to military S&T. Using the aviation industry as a starting point, he made every effort to set up S&T interchanges and ties between the military and the civilian sides. Kuo Nan-hung, who is responsible for the Executive Yuan S&T Advisory Group, carried out S&T projects as part of the six-year program for national construction. He was involved in examining and verifying budgets, in facilitating coordination, and in setting up personnel and telecommunications institutes.

The actions of these men will decide how the Republic of China spends its money on science and technology. Appropriations for an annual budget of approximately 10 billion for civilian S&T and for an even larger amount for national defense S&T, plus 170 billion for S&T projects in the six-year national program, all funnel through them.

If Hao Po-tsun's S&T administration reaches its goal, science and technology in Taiwan will attain new frontiers.

With respect to industry, the six-year national program sets forth eight key technologies (photoelectricity, software, automation, materials, sensitometry [gan ce, 1949 3261], biology, energy development, and energy savings) which can freely be put to use and 10 new industries (communications, data transmission, consumer electronics, semiconductors, automation, aerospace, advanced materials, special-use chemicals, health care, and pollution prevention) which can be selected for investment. In addition, there is the domestic national defense S&T market where the members of his S&T administration can exercise their talents, thereby making it a clean sweep internationally.

A more independent Taiwan science and technology could make data transmission more convenient and the environment cleaner for the average citizen and make confronting the Communist threat less worrisome.

The new S&T administrative contingent represents an S&T world developed totally in the era of Hao Po-tsun, and as such, a series of personnel changes from bottom to top have been unavoidable.

The S&T leadership vacuum left three years ago by Li Kuo-ting's retirement from his position as Executive Yuan Minister Without Portfolio has now been filled by Hao's strong leadership. The S&T agenda of Hao's cabinet called early for bringing the independent and closely knit people from military S&T on to the main stage to work in conjunction with S&T civilians. Foreign national S&T advisors were all the rage during the era of Sun Yun-hsuan [1327 6663 3872] and Li Kuo-ting. However, being squeezed on to an already badly crowded stage, their share in decision making was thereby reduced.

The Hao Po-tsun public security, political, and economic whirlwind has finally reached science and technology. As someone who lives in the eye of the storm, Hao essentially represents a mix of the military and S&T.

A high-level senior official of the Executive Yuan with many years of public service affirms, "Premier Hao understands more about S&T than any other premier we have had." At the order of Chiang Ching-kuo, he spent seven years of his military career as president of Chungshan Academy of Sciences, the country's largest research body. None of the other generals had his experience. It was at this stage that his views on S&T were most strongly influenced.

**High-Level Advice**

In the latter part of January, Hao Po-tsun made an inspection of industrial research facilities, visiting each institute in turn. During his trip, research personnel showed him some material of man-made fibers which were likely to change color in the sun and others discussed their preference for fibers changing from light red to bright red. Hao, however, simply said, "This has to do with the light rays."

Hao Po-tsun was able to make a smooth transition from field operations tactics to an understanding of S&T by relying on high-level advice.

"He (Hao Po-tsun) really knows how to make the best use of people. He can identify the right person. This is a leader's most important qualification for taking charge," according to an observation by Li Kuo-ting, who is himself a long-time recipient of Hao's advice and counsel.

Next to Li, Huang Hsiao-tsung—though representing the military but noticeably unlike the military—has become Hao Po-tsun's most important right-hand man. This graduate of Wuhan University, having worked in the United States on sending a man to the moon, cruise missiles, and the space shuttle propulsion system, on being introduced 13 years ago by Li Kuo-ting to Chief of the General Staff Sung Chang-chih [1345 7022 1807], was given the honor of becoming S&T advisor to the National Defense Ministry.

After Hao moved from chief of the general staff to the premiership, it was only natural for Huang to become Executive Yuan S&T advisor.

Because of Hao Po-tsun's full authority as chief of the General Staff, Huang Hsiao-tsung ordinarily acted on his behalf as president of Chungshan Academy of Sciences. He revamped its organization by doing away with its original vertical arrangement of separate units, establishing a flexible matrix structure. Work was done on the basis of objectives and chosen on the basis of priorities. The Academy, always known as sedate place to work, on his insistence, weeded out 10 percent of its manpower each year. After eight years, it finally turned out six kinds of missiles and two types of aircraft. In talking about this mild-mannered yet no-nonsense senior official, a military S&T person declared, "He's not harsh, but he does demand the highest standards."

In his capacity as acting president of Chungshan Academy of Sciences, Huang Hsiao-tsung, in effect, had control of the great seal. When he arrived at the Executive Yuan, Hao Po-ts'un promoted him to work with the aviation industry. Huang himself set up a civilian-run aerospace company—the Tai Hsiang Company, and a small group comprised of four cabinet members from the Ministry of National Defense, Ministry of Economic Affairs, Ministry of Finance, and Council for Economic Planning and Development. A person familiar with the inside story describes Huang Hsiao-tsung, this senior S&T talent who spent 12 years in Taiwan solely in an advisory role, as, "Someone who perhaps lacks high position, but someone who definitely has a say in things."

#### **The Military Temperament in Dealing with Science and Technology**

Li Kuo-ting and Huang Hsiao-tsung may have been able to help Hao Po-tsun's entry into the S&T area. However, the civilian way of thinking prevalent in S&T circles did not in the least soften Hao's military temperament. After his arrival at the Executive Yuan, a series of S&T decisions Hao made showed that he was still handling things in a straightforward, decisive manner.

When Hao Po-tsun and the council were making preparations to hold an S&T meeting, Hao demanded to know if there would be any specific results if the meeting were held, "Otherwise," he declared, "we won't bother holding it." After listening to a briefing from a five-person group on satellites, Hao decided on the spot to revise the plan and, without the least warning, even turned over to the Industrial Technology Research Institute the executive body that was the most troublesome and difficult to deal with, along with all the others. "I originally thought he would say to restudy it," a member of the satellite small group with an academic background declared with respect to the Executive Yuan's recent, straightforward new atmosphere.

With Hao Po-tsun's leadership, Li Kuo-ting's administration, and Huang Hsiao-tsung's management, the new S&T contingent only needed to add the academic background of Kuo Nan-hung to be complete.

Kuo Nan-hung, who has always acted independently, joined the cabinet three years ago when he went from the post of university president to minister of communications, and brought with him a group of young academics to act as his assistants. However, on 1 January 1990 when Kuo took over the Executive Yuan's S&T Advisory Group, he only brought a secretary with him to the post.

In the past, the S&T Advisory Group, having but a mere 50 people, relied on the influence created by Li Kuo-ting's personal charm. Under Kuo Nan-hung's direction, it was reliance on Kuo's exacting and rigorous academic approach that enabled the six-year program for national construction to be successfully included in the fourth national S&T conference.

#### **The Points Are Scored by the Others**

Kuo Nan-hung, not having received instructions until November 1990 on the topics for the fourth conference, changed the entire array of industrial and S&T topics that had been in preparation for a year in order to integrate 69 individual topics for discussion on the six-year program for national construction. Within a period of two months, he held more than 100 meetings in which there were intense discussions among people from industry, government, and academia. A government figure who once was a student of Kuo describes him during these two months of intense meetings and box lunches as "a professor guiding a dissertation."

As early as a week before the S&T conference was to begin on 21 January, specific decisions on S&T projects for the six-year program and plans for their execution were already being made in the Civil Aeronautics Administration conference hall next to Sung Shan airfield.

"Kuo Nan-hung obviously understood the intent of Premier Hao's instructions that there be a specific plan of action," a person who participated in the preparation of the S&T conference has declared.

In mentioning how Kuo worked out the details of including the six-year program in the S&T conference, someone familiar with the preparatory process said with a smile, "Substantially and politically, it was all very correct."

In coping each year with the major task of handling huge budgets, Kuo Nan-hung has stressed, "The premier is the leader, I'm just the coordinator." Citing the example of the Argentine soccer star Maladona who in Italy said when he kicked the ball, "I'm only the go-between. The points are scored by the others."

The first job the new S&T contingent wanted to initiate without going through the government system was with the aviation industry, a sector in which Premier Hao invested high hopes. This task fell to Huang Hsiao-tsung.

Because the 3-year-old 11-person aerospace industry small group (convened by Chief of the Industrial Bureau Yang Shih-chien [2799 0013 4873] and National Chengkung University professor Chao Chi-ch'ang [6392 4949 2490]) had not made a breakthrough in the entanglements

between the ministries and commissions under the Executive Yuan—which had all along been limiting their work, the government decided to bypass the small group and establish the Tai Hsiang Company. In the opinion of Chung Tzu-ch'iang [6988 5261 1730], chief of the Industrial Bureau's first department, "Making Tai Hsiang the leading component of the aerospace industry represents an approach which focuses on key elements."

A professional person who is involved in national defense S&T has pointed out that, given the impossibility of increasing the current national defense budget and pressure from a large part of the work force involved in national defense S&T, Tai Hsiang represents a flexible use by the government of military experience and is a policy-related gesture toward the civilians. "Tai Hsiang is like building a bridge," he said, as he outlined one with his hands.

Hao Po-tsun became premier on 20 May 1990. In the middle of June, he announced that Huang Hsiao-tung was making preparations for Tai Hsiang. Because of Tai Hsiang the 70-year-old Huang gave up his plans to retire last year. Now, in his seventieth year, Huang has staked everything in the Republic of China's first aviation industry company.

Because he wants to ensure that Tai Hsiang future operations will develop successfully, Huang Hsiao-tung has repeated contacts with foreign aerospace companies. He wants to attract experienced Chinese living abroad to return home and offer their services. To do this, he travels to the United States to make public speeches. To encourage civilian investment in the 51 percent or more of Tai Hsiang stock that has been designated for public ownership, he changed his formerly secretive ways. He has met directly with important business leaders such as Lin T'ing-sheng [2651 2185 3932], Chang Jung-fa [1728 2837 4099], and Huang Shih-hui [7806 0013 1920], as well as, held a series of public meetings at business enterprises to explain things.

#### **Dealing With Tai Hsiang According to Procedure**

However, Huang Hsiao-tung's broad background in politics and economics and his limited background in S&T cannot, in the final analysis, be simply measured against the heyday of Li Kuo-ting. The independent rise of political democracy and financial and economic organizations, plus the lack of anyone to emerge after Li Kuo-ting with a capability in the two worlds of finance and economics and S&T, acted in every way to slow Tai Hsiang's takeoff. Even after Premier Hao instructed Huang Hsiao-tung to spare no effort and even turned over the executive units, it was "in principle, spare no effort to help, but handle everything according to procedure."

The civilians let it pass, while the state holds back. Even though Ta Tung, Chang Jung, and Hua Lung have expressed a willingness to invest in Tai Hsiang, the Executive Yuan's development fund and the Chiao Tung Bank of the government have called into question the operational prospects of Tai Hsiang and issued a temporary warning. "If there are problems in the future, it is still our

responsibility. When the time comes, the Legislative Yuan and the Examination Yuan will step in again," the president of a publicly owned bank explained.

Tai Hsiang which originally was scheduled to be established at the end of 1990, is at present having its operational plans revised under the personal direction of Huang Hsiao-tung and is expected to stage a comeback in the near future. An important functionary of Tai Hsiang admits that Tai Hsiang suffers from an unbalanced structure because of the number of its technicians and its extreme lack of financial workers. However, he also complains that Tai Hsiang's difficult plight cannot remotely be compared with Taiwan Integrated Circuits [jiti dianlu, 4480 7555 7193 6424] when it was made into a company four years ago.

At that time, in order to establish Taiwan Integrated Circuits, Li Kuo-ting worked in conjunction with Chang Chung-mou [1728 1813 6180], chairman of the board at the Industrial Technology Research Institute. Chang went abroad seeking cooperative prospects and firm orders, while Li Kuo-ting remained at home arranging for government funding as well as seeking participation in the public ownership of the company's stock by close acquaintances of his in the petrochemical industry. In order to attract civilian investment, Li Kuo-ting also pushed for a revision of regulations whereby semiconductors were listed as a major investment item and for every 10 yuan invested, 3 yuan could be deducted in taxes. "The treatment we have received really cannot be compared with Taiwan Integrated Circuits," this Tai Hsiang functionary indignantly declared.

#### **The Reticent Mr Hsia Han-min**

Except for the revised satellite project research, Hsia Han-min [1115 3352 3046], the main member of the National Science Council, has said little about the major S&T topics recently set forth by Hao Po-tsun.

When Hsia was directing both the Executive Yuan S&T Advisory Group and the National Science Council, he oversaw Taiwan's entire S&T budget. However, since Kuo Nan-hung took over as chief of the S&T Advisory Group, he and Hsia have no longer been on friendly terms. Kuo's leadership of the man-made satellite project brought about an explosive controversy between domestic scientific circles and academia. Not only did it sour the relationship between the National Science Council and academia, it used up a great deal of equity he had accumulated in S&T and political circles.

Having lost his father when he was seven, Hsia Han-min genuinely wanted to do a good job with the National Science Council. The National Science Council, whose principle mission is the support of basic research, has each year up to now selected and sent abroad its outstanding students of physics to cultivate talent to work on instrumentation for synchrotron radiation [tongbu fushheyi 0681 2975 1607 1410 0308]—the Republic of China's largest nonmilitary S&T project. To do work in the new science of superconductivity, he and Chinghua University President

Liu Chao-hsuan [0491 0340 3763] invited Columbia University professor Wu Mao-k'un [0702 5399 2492] (who, along with Chu Ching-wu [2612 4842 2976], made breakthrough discoveries in high-temperature superconductivity) to return home and head up a five-year project, asking that they make 25 patents to get into step with the United States and Japan.

Even Hsia Han-min's family life is permeated by the National Science Council. To revise the concluding remarks to be given at the S&T conference, he went over the address word by word until 3 a.m. on the day of the closing ceremony and at 8 a.m. personally delivered it into the hands of Premier Hao. Even Hsia's Hakka-speaking wife is involved, going on weekdays with him to Hsinchu to mediate difficult problems concerning science park land under the National Science Council.

However, the satellite project, which came out of nowhere, has caused Hsia to pay a heavy price.

President Li Teng-hui, who is scholarly by nature and loves to talk about S&T, casually mentioned to a visitor, "Taiwan could build a satellite." This created a strong desire in Hsia to launch one. Last year prior to the February presidential elections, when Hsia agreed to the TIENHSIA interview, he acknowledged that the space, oceanographic, and superconductivity research in which the National Science Council was engaged was all inspired by the interest of President Li. As a result of President Li's conversation with his foreign guest, Hsia understood his interests. "We have acted accordingly," admits Hsia, who has a naval background.

To get the satellite project successfully passed, National Science Council officials received instructions to make frequent contact with the Legislative Yuan members and to be resourceful in trying to win them over. The budget for the satellite project was passed without a hitch. However, the details of the project are still not clear and definite.

When the satellite project evolved into a heated controversy and National Science Council staff and aides proposed revoking the order to develop a launch system independently, Hsia Han-min, who arrives early, would persist in staying in the passageways even on rainy days. An S&T official says, "It is bold and presumptuous of him to want to build a satellite. However, he has not implemented the details of what he is carefully seeking to prove and, politically, it's one mistake after another."

#### **Forcing the Legislative Yuan To Conduct Itself With Dignity**

After the Legislative Yuan publicly called into question Premier Hao's decision to revise the satellite project, an Executive Yuan senior officer could not help but remind Hsia Han-min, "This is forcing the Legislative Yuan to conduct itself with dignity, and you should know that Premier Hao is violently...."

A close acquaintance of Premier Hao with many years experience in S&T also brought up the National Science Council with displeasure, saying "Young people now are overbearing. If something happens, they don't even ask about it."

A high-level Executive Yuan official who has observed Hsia Han-min says, "He puts too much emphasis on the political aspect of things. But, actually, what he understands is S&T, not politics."

Even Kuo Nan-hung has publicly confronted the National Science Council on the satellite project, thereby openly revealing the innermost feelings between the two of them.

In the process of administering the budget's before-and-after coordination policies, the relationship between the National Science Council and the S&T Advisory Group has recently become increasingly touchy. The National Science Council is one of the formal organizations of the Executive Yuan, whereas the S&T Advisory Group is a specially established provisional organization. However, with a position at the rank of minister without portfolio, the S&T Advisory Group can examine and administer the budget at a level higher than the National Science Council, which is within the Executive Yuan. It has always been a balancing act between the two with respect to their relative strengths and weaknesses and their relative superiority and inferiority.

Consequently, there are differing views on delineating the authorities of the strong-willed Hsia Han-min and the scholarly Kuo Nan-hung. Hsia Han-min has stressed, "Everything that the Premier has not specially handed over reverts to the National Science Council." Whereas Kuo Nan-hung's opinion of organizations such as the National Science Council which "act as both ball player and umpire" is that they "lose objectivity."

Because of a great many obstructing factors, Premier Hao's S&T administrative power cannot be freely expanded and contracted as it was in Li Kuo-ting's time.

In Li Kuo-ting's time, he was totally empowered by higher authorities. With the trust and confidence of President Chiang Ching-kuo and Premier Sun Yun-hsuan, Li could fully establish S&T programs at home and abroad. The annual conference of foreign S&T advisors was a major event in S&T circles and was presided over by the premier. The conference enabled Taiwan to establish an office for environmental protection and to develop investments for starting up new businesses. After having been discontinued for a year, the conference was resumed during the last half of 1990. But it was a domestic meeting held far away in France where it was impossible to be heard.

Li Kuo-ting was also fully experienced in internal government operations. "In addition to being a scientific and technical expert, Presidential Political Advisor Li is a practiced and talented administrator," according to a description by Wu Pai-chen [0702 2672 2823], executive secretary of the Executive Yuan's S&T Advisory Group. Li Kuo-ting knew how to mobilize people in government organizations, state-run enterprises, the banking system as well as in civilian businesses and for creating business investment, and he knew how to utilize budgets within the system across organizational lines and how to handle investments outside the system to take care of national defense, finance, S&T, and education. It can be seen in the

promotion of Tai Hsiang that this type of approach came to a standstill with the retirement of Li Kuo-ting.

The urgent task of Premier Hao's S&T administration is to create a new Hao Po-tsun system to replace the old system.

In describing his attitude on how things should be handled, a senior official who has helped Premier Hao expedite government work has pointed out "He is a man who emphasizes the practical."

To avoid the political problems caused by the establishment of a new organization, Premier Hao decided not set up a separate S&T organization for satellites. To avoid outside interference, he instructed the military to withdraw from the satellite program. And to ensure harmony, he especially told Kuo Nan-hung to pay his respects to Li Kuo-ting. When Tai Hsiang was about to be set up, the Industrial Development Bureau of the Ministry of Economic Affairs and the Ministry of National Defense Ministry were also in the process of signing an agreement to put the future exchange of military and civilian S&T personnel on a legal basis.

For the past 10 years, an S&T administration using the strongman approach has made Taiwan acutely aware of its urgent S&T tasks. During the next 10 years, a democratic strongman system will decide whether Taiwan will be able to manage S&T. Whether Hao Po-tsun's S&T contingent succeeds or fails will determine Taiwan's future international position and its economic strength.

### Editorial Analyzes Investments in Mainland

91CE0585B Taipei CHING-CHI JIH-PAO  
[ECONOMIC DAILY] in Chinese 6 May 91 p 2

[Editorial: "The Motivation and Impact of Taiwan Business Investments on the Mainland"]

[Text] According to the most recent Chinese Communist statistical data, Taiwan firms' investments on the mainland increased sharply by over a thousand last year, far exceeding such countries as the United States and Japan, and becoming the mainland's largest investment source. The Trade Bureau of the Ministry of Economic Affairs and the Chinese Economic Research Institute both have expressed concern about this, and the former has commissioned the latter to devise "mainland product indirect import early warning measures." According to the latter's estimates, Taiwan businesses' mainland investments reached approximately U.S.\$2 billion, far above Ministry of Economic Affairs estimates of U.S.\$750 million. And, if we add Hong Kong transit investment figures, their total investments would reach approximately U.S.\$3 billion. According to indications by Chinese Economic Research Institute, Mainland Research Department researcher Chang Jung-feng [1728 2837 0023], based on the large 48.7 percent growth in Taiwan exports to Hong Kong in the first three months of this year, investment in the mainland still could be rapidly increasing this year.

After all, how many Taiwan businesses are presently investing on the mainland? Some say over 2,000 and others say "more than 1,500," but up to now we still do not

have truly reliable statistics. But the number of Taiwan businesses going to the mainland to invest is actually increasing at a rapid rate. This is a fact that is not easily denied. So, we want to give a little bit of analysis to the motivation of Taiwan businesses going to the mainland to invest, and from there examine what affect the continuation of this phenomenon will produce on both sides of the Strait.

Certainly, Taiwan businesses are going to the mainland one after the other to invest mainly for "personal gain." They intend to make a profit. But, the mainland's economic system is different from Taiwan's. So, those going to the mainland to invest, on one hand, must assume the risk of changes in cross-strait policies and, on the other hand, they also must consider whether the money that they earn actually can be remitted from the mainland and converted to "reliable private property." Because Taiwan businesses want to brave so many risks to go to the mainland and invest, we believe that their actual motivations for investing need to be further analyzed. As we see it, Taiwan businesses' motivation for going to the mainland to invest can generally be summarized as:

(1) Contrasting investment environment: Although the mainland investment environment is not good, some regions (such as Shenzhen and Shanghai) have conditions conducive to industrial development. Taiwan's investment environment used to be better than the mainland's, but, from the two news items on "anti-nuclear protests" and "Taiwan electric's protectionism," not only will the price of electricity rise, but sources of electricity also will gradually get to the point that there will be no way for them to supply electricity for use in production. With this kind of change in the investment environment, it is no wonder that Taiwanese businesses are going to the mainland in droves to invest!

(2) Contrasting investment costs: Taiwan's wages far exceed those on the mainland. So, quite a few labor intensive industries have moved to the mainland to cut costs. Moreover, with such indirect costs as the present ceaseless protests, petitions, and demonstrations, firms' indirect costs on investments on Taiwan have to be several times those on investments on the mainland.

(3) The enticement of the achievements of successful investors: The achievements of those who first went to the mainland to invest, like earning money, are bound to attract some other investors to follow in their footsteps, especially related upstream and downstream industries. If some of them go to the mainland and earn a profit from investment, it is natural that they would lead other related upstream and downstream industries to follow them.

(4) Feelings toward compatriots that blood is thicker than water: In addition to the economic factor, there also is some cultural background involved in Taiwanese businessmen going to the mainland to invest. Regarding this point, we need only look at the number of Taiwanese investment in Amoy and the labor-management relations that some Taiwan businesses have established in that place, and we can become suddenly aware that "blood is thicker than water" is definitely not an empty phrase. Who

would dare say that feelings toward compatriots that blood is thicker than water had nothing to do with Wang Yung-ch'ing's [3769 3057 1987] desire to invest in Haizang [3189 3318]!

Even though Taiwan businessmen went to the mainland to invest based on the motives given above, we still cannot overlook the profits and losses of their investments and in the end how they deal with those profits and losses. What affect will their outcome have on cross-Strait relations? Generally speaking, Taiwan business investments on the mainland can be divided into the two broad categories of "money making" and "not yet money making." As regards the former, because the group of Taiwan businesses that invested in the mainland in former years adopted the "transit" method, and after investing shipped raw materials to the mainland and shipped their products out from the mainland, these are what we call "indirect." So, the profits that this type of Taiwan business was permitted to make on its investments on the mainland they would not necessarily be able to remit to Taiwan. At the same time, if they were permitted to remit them, they used another name to remit them "through" another place. So, we were able to have a considerable growth in our exports to Hong Kong from January through March of this year and we were able to reduce the amount of the current trade surplus with the United States for the first time.

The above supposes that the mainland permits Taiwan businesses to remit the profits earned from the mainland. If the mainland strictly controls foreign exchange and does not permit it to be remitted, Taiwan businesses can only use the profits gained to increase investments on the mainland. Assuming that Taiwan businesses that invested on the mainland in former years did so out of a feeling toward compatriots that blood is thicker than water, even if the mainland permitted them to remit profits earned, this type of Taiwan business would not necessarily remit them, but rather might increase investments on the mainland. As to the Taiwan businesses, who have not yet made a profit on their investments on the mainland, they might put their hope in the future to the point of increasing their investments.

In conclusion, when regarding the present Taiwanese business investments on the mainland, it is not difficult for us to see that while the two sides of the Strait still do not formally recognize economic and trade relations with one another, whether from the perspective of tax receipts, production, trade, or employment, Taiwan businesses' investments on the mainland are now all to the mainland's advantage and not to ours. So, the Trade Bureau of the Ministry of Economic Affairs has commissioned the Chinese Economic Research Institute to draft "mainland product indirect import early warning measures." But, if we want to improve the economic and trade relations of the two sides of the Strait, can we put all of our efforts into restraining indirect imports of mainland products? We believe that with the two sides "in contrast" as described above, if we cannot further improve such aspects (as nuclear powerplants), it will be very difficult to make the Taiwan businessmen going to the mainland to invest cherish their "roots!" This is a serious problem related to

how, after all, to publicize the "Taiwan experience" on the mainland. We hope that the politicians will take this long view into account, and by no means delay Taiwan's mission and contribution to Chinese history for immediate gain!

#### Editorial Alerts Signs of Export Decline

91CE0585A Taipei CHING-CHI JIH-PAO  
[ECONOMIC DAILY] in Chinese 8 May 91 p 2

[Editorial: "Alarming Decline in Export Trade"]

[Text] The Executive Yuan Accounting Department recently announced the April foreign trade statistics. April export figures were down 1.4 percent from the same period last year, causing some concern among people from various circles. In addition, April import figures increased 8.9 percent over the same period last year, and, after offsetting imports and exports, the favorable balance of trade was reduced a sizable 65 percent from the same period of the previous year. April exports to the United States had a large decrease of 16.8 percent from the same period in the previous year and exports to Hong Kong had a large increase of some 35 percent over the same period in the previous year, causing serious concern to interested people. We believe that the April decline in export trade and the great change in relevant trade data not only reflect a dramatic change in Taiwan's current economic and trade situation, but even more reveal problems in Taiwan's fiscal policy that merit deeper investigation.

The main reasons for April's export trade decline are: First, the strengthening U.S. dollar and the fact that the new Taiwan dollar is almost pegged to the U.S. dollar and has increased in value compared to the currency of other important trading partners, such as Japan, Korea, Hong Kong, Germany, and Singapore. The second is Taiwan's industrial transfers, especially the large investments in establishing factories on the Chinese Mainland and the shipment of their products to the United States taking the place of some of Taiwan's exports to the United States. Besides, some firms, anticipating a possible devaluation of the new Taiwan dollar, are delaying exports and several successive holidays in early April this year not only affected production, but also could be an important reason causing the decline in April exports.

Some people, on the basis of the reasons given above for the April export decline, believe that one month's decline in export is not enough to merit concern, but we believe that it reflects a long-term trend in the economic and trade situation, involving policy lessons that are very distressing and quite worthy of serious consideration. First, Taiwan's economic growth has consistently been export oriented, and exports must play an important role in future economic development. If, because the domestic investment environment worsens and a large number of enterprises move out, we are unable to effectively establish capital- and technology-intensive industries, while accomplishing a smooth transformation of the industrial structure, Taiwan's products will tend to lose their international competitive advantage and will gradually be replaced by products from the mainland and Southeast Asian countries,

making it difficult for exports to spur sustained economic growth. This could be a major crisis for Taiwan's economic development.

Secondly, the inflexible monetary policy deserves to be examined. The strengthening of the U.S. dollar on the international market greatly devalues all important currencies against the US dollar, but the exchange rate of the new Taiwan dollar-U.S. dollar exchange rate is almost pegged to the U.S. dollar and there is only the slightest fluctuation. In the past, the measures to slowly increase the value of the new Taiwan dollar against the U.S. dollar caused unprecedented difficulties for Taiwan's economy and finances. The present measure of nearly pegging the new Taiwan dollar to the U.S. dollar could also be an important reason leading to the decline in exports. The floating exchange rate is itself an effective tool for responding to or divorcing oneself from changes in the international financial situation, and one of the main premises of an effective policy of increasing the money supply, but the Central Bank's inflexible tactics and measures to maintain a stable exchange rate render these important functions of a floating exchange rate ineffective. Obviously, the perilous situation of domestic and foreign finances in recent years have hardly taught the Central Bank a useful lesson, and the Central Bank still cannot or dare not actively use the floating exchange rate to adapt to dramatic changes in the domestic and foreign financial situation.

Thirdly, while we should affirm the significance of the great reduction in the foreign trade surplus and the policy to balance trade or revise the economic and trade priority of exports, what Taiwan's economic growth needs is an "expanded balance of trade," not a "reduced balance of trade." The reduced trade surplus caused by a decline in exports is a "reduced balance of trade" and is not advantageous for Taiwan's economic development. Moreover, although the fact that exports to the United States were greatly reduced, the trade deficit with Japan continued to expand, and the trade surplus with Hong Kong increased dramatically, which gave Hong Kong the position of the region with the greatest trade surplus with Taiwan, in one respect indicates a change in Taiwan's foreign trade structure, and in another respect it still reflects the unbalanced development of Taiwan's foreign trade. Unbalanced trade does not conform to the principle of reciprocity and can easily lead to trade friction. Thus, its development also lacks stability. How to disperse trade regions and how to encourage balanced development of trade regions obviously is an important issue that cannot be overlooked while promoting liberalized trade, and is a lesson that should be taken into account when Taiwan strives for an "expanded balance of trade." At the same time, issues related to the economy and trade on both sides of the Strait—such as the huge, longstanding trade deficit with Japan, and the huge trade surplus with Hong Kong—merit serious attention and should be included in the subjects for further examination.

When regarding the present situation, whether the April decline in export figures is the beginning of a long-term decline or is a short-term imbalance is still hard to determine, but the news that it occurred merits vigilance. How

to establish capital and technology intensive industries at an early date and promote transformation and improvement in the industrial structure and the trade structure now that labor intensive industries are moving out on a grand scale; how to achieve an "expanded balance of trade," promote balanced trade development, and strive for liberalization and internationalization of today's economy; in addition, how to effectively and flexibly use monetary policy and exchange rate policy, are all important policy questions that the decline in the export trade raises. We deeply look forward to relevant authorities' properly facing up to the situation and quickly examining it and adopting measures to deal with it.

### Editorial Views Trade, Economic Cooperation With Japan

91CE0585C Taipei CHING-CHI JIH-PAO  
[ECONOMIC DAILY] in Chinese 18 May 91 p 2

[Editorial: "Examination and Reflection on Taiwan-Japanese Economic, Trade Cooperation"]

[Text] Although the Taiwan-Japanese Economic and Trade Cooperation Conference has been held year after year to improve Taiwan-Japanese economic and trade relations and resolve problems in Taiwan-Japanese trade balances, not only has Taiwan's trade deficit with Japan not been reduced, but, in the last four years, it has expanded by US\$1 billion a year. This year it is estimated that Taiwan's deficit will reach U.S.\$9 billion. What is more serious is that this expansive trend is contrary to the general trend of Japanese trade to greatly reduce surpluses, and merits examination and attention.

But the situation in this year's Taiwan-Japanese Economic and Trade Cooperation Conference presently being held is obviously different. Not only has the Japanese side sent a large-scale, rather high-level delegation, but there was much more pre-conference preparation than in the past. To understand the two sides' different perceptions of increased technological cooperation and expanded trade, they made a prior survey of both sides' enterprises. Japanese businesses' criticisms and suggestions for Taiwan especially merit attention and reflection. The results of the surveys are here further analyzed and examined as follows:

First, as regards improved Taiwan-Japanese technological cooperation, based on an investigation of foreign trade agreements, Taiwan's businesses believe: (1) In transferring technology, Japanese merchants always hold back and are unwilling to transfer key technology so that technology cannot take root in country; (2) Japanese merchants maintain an aloof and passive attitude toward technological cooperation, unlike the Americans' openness and joint research with Taiwanese people that increases our understanding, provides suggestions, and increases confidence in technical people; (3) Japanese merchants absolutely refuse to transfer technology that the Japanese are currently using, but most of what is provided is obsolescent technology, one or even two generations behind the technology that the Japanese themselves are using, putting us always behind the Japanese. From the Japanese perspective, based on the results of the Japanese Keidanren

survey, they believe: (1) Taiwan firms do not take intellectual property rights seriously; (2) Taiwan firms not only lack the capability to initiate research, but also lack the capability to absorb Japanese technology; (3) the Taiwan Government's investigation procedures for technological agreement cases are too complicated and too time consuming, and lack protection for intellectual property rights. If we take Taiwan's and Japan's ideas together and analyze them, it is not difficult to discover that Taiwan criticizes the Japanese for its reluctance to supply key technology and passivity. The Japanese explanation is that Taiwanese businesses not only do not take intellectual property rights seriously and the government does not give sufficient protection to intellectual property rights, but also that businesses lack the capacity to absorb Japanese technology. What the Japanese say certainly is fact, but in recent years we have made obvious progress in our consideration of and protection of intellectual property rights, but we still have not seen any relaxation in Japan's supply of key technology. But the situation is not absolute. Korea's technological cooperation with Japan has been far more successful than ours. The most important point here is that in Korean-Japanese technological cooperation, regardless of whether people are sent to Japan to study or whether Japanese experts are invited to Korea to provide guidance, these people are not just the experts from their respective countries: they have a strong desire to learn, are quick-minded and react sharply, and can make inferences from what is already known. They constantly bring up questions to the Japanese experts, raising an endless stream of questions. They not only want to know the hows, but they want to know the whys. This indefatigable spirit, like ceaselessly digging deeply into a source of great wealth, often gains a yield several times that specified in the contract, thus the yield is very plentiful. Recently several Taiwan machinery factories in cooperating with the Japanese adopted the same methods as the Koreans and were rather successful. So, our lack of an energetic, active, probing spirit in past technological cooperation with the Japanese is worth investigating and improving.

Secondly, Taiwan businesses believe that the main obstacles to exporting Taiwan products to Japan are that: Japan's demands for quality and safety standards are extremely strict, well nigh exacting; (2) the Japanese market has special circulation channels that are not easy to get into; and (3) profits are meager. The Japanese businesses believe that: (1) Taiwan product quality and design are both inferior; (2) the prices of products are high and uncompetitive; and (3) after-sale service is inferior. The whole world knows that the quality and safety standards

demand by Japanese enterprises and consumers are extremely strict and the special channels in the Japanese domestic markets also are a fact. But this by no means indicates that there is not a way to break into the Japanese market. All that is necessary is to measure up to Japanese demands for quality and specifications and one can sell large quantities to Japan. Especially in recent years, to reduce its surpluses Japan has liberalized its imports to a considerable extent. In regard to Japanese nonenergy imports, the average annual increase has been 18.7 percent for the past four years (1987-90), a significant increase. But Taiwan's exports to Japan in the same period only increased at an annual average of 16 percent, behind the rate of increase for Japanese imports. But if we analyze figures on Taiwan's principal exports to Japan, we will discover that there is an extremely large discrepancy. Textiles, which in the past were the primary products sold to the Japanese, did not achieve a 4 percent annual increase during the past four years, but mechanical equipment increased 29 percent annually. When we investigated the mechanical industry, we understood that the large increase in exports to Japan, on the one hand, was improved quality from technological cooperation and, on the other hand, was the result of establishing a sales promotion organization in Japan. In looking back on Taiwan's textile industry, we have established very few sales promotion units in Japan; however, Korea, in order to expand textile its sales to Japan, has established a large number of sales promotion units there. According to 1989 Japanese statistics, they imported only US\$1 billion worth of textiles from Taiwan, while textile imports from Korea reached as high as US\$3.8 billion, 3.8 times Taiwan's. The same year, Japan's imports of mechanical equipment from both Taiwan and Korea was US\$300 million, proving that one reaps what one sows. Although it is difficult to get into the Japanese market, with effort there is room for development.

Thirdly, based on the results of both sides' surveys, in both improved technological cooperation and in expanded trade, both sides have contacts, and they have a greater desire, even a much greater desire for, cooperation and trade than in the past when they did not have contacts. This indicates that before they came into contact, they lacked understanding, which produced a discriminating mentality. But once they made contact and gained trust, both sides wanted to improve cooperation and expand trade. Thus, we suggest that after this open and frank Taiwan-Japanese exchange, we should have multilateral contacts and publicly discuss the problems facing us, and together strive to overcome them. Taiwan-Japanese economic and trade cooperation still has a bright future.

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